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ABSTRACT

This document is the student study guide for a course on the effective management of a small business in a changing environment. The course is designed for those persons who wonder may go into business for themselves as well as for those who are already in business but who wish to strengthen their entrepreneurial and management skills. The guide presents the acquisition of specific knowledge, skills, and attitudes relating to (1) the total process of management, including strategy determination and all required activities necessary in planning, organizing, directing, and controlling a small business; (2) the development of a business plan that is critical to the success of starting a new business; and (3) content areas, such as selecting the form of legal organization, franchising, identifying outside assistance, financing the small business, selecting a location, facility planning, personnel planning, market research and advertising, pricing and credit, maintaining an accounting system, selecting insurance, maintaining inventory and supplies, and managing time. The study guide contains 10 lessons. Each lesson contains an overview; objectives; "getting prepared," a list of the textbook reading assignments; a summary of the audio lesson; and "putting it all together," including review of things to do from the text, student supplement, and audio lesson. (MN)

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SKILLS FOR SELF--EMPLOYMENT

Written by

Joe Abbruscato

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Preface

Small business firms represent an important part of today's business economy and their success is essential to the individual's and the nation's economic health. To be strong, small business firms must respond creatively to a rapidly changing economic and social environment. They must have the ability to adjust to shifts in customers' demands, competition and public expectations. The focus of this course will be on the effective management of small business in a changing environment.

Notes to the Student

THE COURSE

This course is designed for those men and women who someday may go into business for themselves as well as for those who are already in business but who wish to strengthen their entrepreneurial and management skills. At the conclusion of this course, the student will have acquired specific knowledge, skills and attitudes relating to:

1. The total process of management including strategy determination and all required activities necessary in planning, organizing, directing and controlling a small business;

2. The development of a business plan which is critical to the success of starting a new business;

3. Content areas such as: selecting the form of legal organization, franchising, identifying outside assistance, financing the small business, selecting a location, facility planning, personnel planning, market research and advertising, pricing and credit, maintaining an accounting system, selecting insurance, maintaining inventory and supplies, and managing time.

THE AUDIO LESSON

The audio component of this course is divided into thirty half-hour lessons which cover the skills you must obtain for successful self-employment. Each audio lesson expands upon the material in your textbook and student supplement, presenting a number of examples and case studies to illustrate key ideas. Some material which does not appear in the textbook and the student supplement is presented in the audio lessons.

THE TEXTBOOK

The required textbook for this course is Small Business Management, 5th edition by H.N. Broom and Justin G. Longenecker, South-Western Publishing Company, 1979. Reading assignments for the textbook will be found in the "Getting Prepared" section of this study guide. You should read this material before listening to the audio lesson.

THE STUDENT SUPPLEMENT

In addition to reading the textbook, you will be required to complete material in the Student Supplement for Small Business Management, 5th edition by Justin G. Longenecker, South-Western Publishing Company, 1979. This supplement contains a number of activities and case studies which will assist you in learning the course material. All Self-Quizzes are found in the Student Supplement.

THE STUDY GUIDE

Skills for Self-Employment is the study guide for this course. It is designed to make your task of learning the material covered in the course as easy and enjoyable as possible. Use the study guide as a tool to help you focus on the critical course content and to review the material covered in the audio lessons.

STUDY GUIDE ELEMENTS

Overview — The overview provides you with the general description of the lesson and tells you what ideas or concepts will be presented in the lesson.

Objectives — The objectives describe the specific skills you should acquire after reading the material in the textbook and listening to the audio lesson. You should use the objectives to guide your study activities. The objectives indicate the critical course content. Use them as a guide through the course.

Getting Prepared — The "Getting Prepared" section lists the textbook reading assignments. You should complete these reading assignments before listening to the audio lesson.

Summary of the Audio Lesson This section of the study guide provides a detailed composite of the content presented in each audio lesson. Please realize that this section cannot take the place of the audio lesson, but it will give you a "hard copy" of the lesson to review the lesson content.

Putting It All Together This section provides you with an opportunity to "put together" all of the information presented in the textbook, student supplement, study guide and audio lesson. You should complete all self-quizzes, additional review questions and activities, if possible. Remember that the more actively you become involved in the course, the more content you will glean.

ABOUT THE CONTENT SPECIALIST

Joe Abbruscato, the content specialist for this course, brought a variety of professional experience with him to the project. Mr. Abbruscato has owned and operated his own small business and has held management positions in industry including the positions of Corporate Training Manager with Columbia Broadcasting System, Inc. in New York City and Training Supervisor for General Motors in North Tarrytown, New York. Mr. Abbruscato received his Masters of Business Administration degree from New York University, Graduate School of Business Administration and has completed graduate studies at Arizona State University. He is currently a professor of management at Maricopa Technical Community College in Phoenix, Arizona.

Let's get down to business

Lesson 1

Overview

Small business has always played an important role in our country. Successful operation of small business is not only essential to the nation's economic health but it also has a lasting impact on those individuals involved in small business. This lesson addresses: (1) the definitions of "entrepreneur," "self-employment," and "small business"; (2) the advantages and disadvantages of self-employment versus salaried employment; (3) the standards used to define small business; (4) the fields of small business; (5) the special values of small business; (6) the competitive strengths of small business; and (7) the significance of small business in the American economy.

Objectives

After reading the textbook assignments and listening to the audio lesson you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Define entrepreneur, self-employment and small business.
2. Describe the advantages and disadvantages of salaried employment vs. self-employment.
3. Identify the standards used to define small business.
4. Identify the fields of small business.
5. Describe the special values of small business.
6. List the competitive strengths of small business.

Getting Prepared

Read Chapters 1, 2, and 3, pages 2-42, in Small Business Management, 5th edition. Be sure that you read the summaries and discussion questions provided in these chapters. Read Chapters 1, 2 and 3 in the Student Supplement for Small Business Management, 5th edition.

Summary of the Audio Lesson

In discussing small business, it is important to know specifically what the terms "entrepreneur," "self-employment," and "small business" mean. In this lesson, the following definitions will be used:

Entrepreneur -- A person who starts a business either from scratch, with new products or services; or who buys an existing business that was started by someone else.

Self-employment -- Working for oneself, with direct control over work performed and fees to be charged.

Small business -- A business which is independently owned and managed and which is not dominant in its field. (Independently owned means that it is not part of another business. Independently managed means the owner should be free to run the business as he/she pleases. Not dominant in its field means the business accounts for only a small part of the total sales volume in its industry.)

A person contemplating starting a business should consider the following advantages and disadvantages of self-employment versus salaried employment:

Salaried Employment

Advantages:
- Job security
- Less demanding work and shorter hours
- Safety of personal assets
- Good job experience

Disadvantages:
- Subordinated rights
- Curbed initiative
- Limited earnings

Self-Employment

Advantages:
- Opportunities for independence
- Greater earnings
- More satisfied way of life

Disadvantages:
- Possibility of losing invested capital
- Irregularity of income
- Requires a particular temperament

Since defining the boundaries of a small business versus a large business could be difficult for the individual, the Small Business Administration and the Committee for Economic Development have developed standards to be used for this purpose. The Small Business Administration describes the standards for a small business in a quantitative sense, while the Committee for Economic Development's standards are qualitative.

Although large corporations dominate many business fields, the fields in which small businesses show the most strength are: retailing, selected services, construction, and wholesaling. Small businesses provide a distribution and supply function to larger businesses and serve as a source of innovation and competition.

The very "smallness" of small business gives it some unique competitive strengths. The size of a large company tends to isolate its management from customers while small business is in a better position to know its customers and market area. Small business can also cater to a specific geographic area and specialize in a specific product. Small business also tends to have more flexibility of management, allowing quicker response to problems and changes.

Choosing to go into business for yourself can provide a satisfying way of life as well as opportunities not normally offered to the salaried employee. It also entails certain risks. Small business in general, however, has great potential in the future because of its inherent strengths and opportunities for competition and innovation.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 1, 2, 5, 7 and 13-15 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 177 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. In the space provided below, list what you think are the advantages and disadvantages of owning your own small business.

SMALL BUSINESS

ADVANTAGES	DISADVANTAGES

2. In the space provided below, list what you think are the advantages and disadvantages of being a salaried employee in a large company.

SALARIED EMPLOYEE

ADVANTAGES	DISADVANTAGES

3. When you think of your career, do you see yourself as an employee in a large business or as an entrepreneur? Explain.

SUGGESTED ACTIVITIES

Interview two small business owners/entrepreneurs in your community and ask them how they prepared themselves to go into their own business. Look for things that relate to educational background and prior work experience.

Also, ask them about the business planning that took place prior to their starting the business. Look for things that relate to preparation of plans for:

1. finance
2. marketing
3. advertising
4. sales strategy
5. production
6. location
7. personnel
8. competition
9. equipment
10. supplies
11. record keeping

lesson
2

Getting started: A new business vs. an existing business

Overview

Whether you go into business by buying an existing business, by inheriting a business or by starting from scratch, there are several factors which you must consider. This lesson looks at the personal skills required by the new business person, the rate and reasons for small business failure, the advantages and disadvantages of buying an existing business versus starting a new business, the importance of a feasibility study, the importance of a business plan, and guide posts for the person interested in owning and operating a small business.

Objectives

After reading the textbook assignments and listening to the audio lesson you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the failure rate of new businesses.

2. Compare and contrast the advantages and disadvantages of buying an existing business versus starting a new business.

3. Describe the importance of a feasibility study and business plan.

Getting Prepared

Read Chapters 3, 4 and 5, pages 31-75, in Small Business Management, 5th edition. Be sure that you read the summaries, discussion questions and case studies provided in these chapters.

Summary of the Audio Lesson

The underlying causes of business failure are incompetence and inexperience of management. More specifically, failure can occur because the business person is lacking in the necessary competencies

required to do the job; because he/she is not well rounded in all areas of expertise such as sales, finance, production, etc.; because the person is inexperienced in the line of business; because of neglect or lack of motivation on the part of the new businessperson; because deceptive and dishonest business practices are used; or because of natural disasters such as floods, tornadoes and earthquakes.

Buying an existing business can eliminate some of the initial worries felt by the new business person because the existing business is a known quantity with a demonstrated track record. There are still several questions which should be asked, however, when you are considering the purchase of an existing business. Some of these questions are:

1. What is the owner's reason for selling?
2. Have you seen the most recent financial statement?
3. How were the assets appraised?
4. How old is the equipment?
5. What do suppliers think of the business?
6. What are the taxes?
7. What has been the seller's return on his/her investment?

The answers to these and similar questions will enable you to determine if there is an advantage to buying an existing business rather than starting your own.

The advantages to starting a new business are numerous. Among them are: (1) you can select the business location, what services or products you will supply and who your suppliers will be; (2) you can avoid undesirable precedents such as poor business policies or legal commitments; (3) you do not inherit any bad will that may exist against an existing business; and (4) your new venture may represent something different and innovative.

Whether you start your business from scratch or by buying an existing business, you should begin by doing a feasibility study and establishing a business plan. This business plan offers you the opportunity to consider all the alternatives which allow you to master change. It is the most effective way to draw out the best in yourself and in your business.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 13-14, 21-22 and 27-28 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 177 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. Based on the interviews you conducted as part of Lesson #1, why do you think some people go into business for themselves before they are adequately prepared?

2. Can you give some causes of business failure not mentioned in either the audio lesson or the text material?

3. Are you familiar with any small enterprises that have gone out of business recently? What types of business were they?

4. Inexperience in management is one of the causes of small business failure. If you decide to start your own business, describe how you will gain management experience before launching the business.

5. Complete the self-quiz entitled "How About You?" found in the Supplementary Material for this lesson, pages 9-10 of this study guide.

SUPPLEMENTARY MATERIAL

How About You?

Under each question, check the answer that most closely represents how you feel. Be honest with yourself.

ARE YOU A SELF-STARTER?

____ I do things on my own. Nobody has to tell me to get going.
____ If someone gets me started, I keep going all right.
____ Easy does it. I don't put myself out until I have to.

HOW DO YOU FEEL ABOUT OTHER PEOPLE?

____ I like people. I can get along with just about anybody.
____ I have plenty of friends -- I don't need anyone else.
____ Most people bug me.

CAN YOU LEAD OTHERS?

____ I can get most people to go along when I start something.
____ I can give the orders if someone tells me what we should do.
____ I let someone else get things moving. Then I go along if I feel like it.

CAN YOU TAKE RESPONSIBILITY?

____ I like to take charge of things and see them through.
____ I'll take over if I have to, but I'd rather let someone else be responsible.
____ There's always some eager beaver around wanting to show how smart he or she is. I say let them.

HOW GOOD AN ORGANIZER ARE YOU?

____ I like to have a plan before I start. I'm usually the one to get things lined up when the gang wants to do something.
____ I do all right unless things get too goofed up. Then I cop out.
____ You get all set and then something comes along and blows the whole bag. So I just take things as they come.

HOW GOOD A WORKER ARE YOU?

____ I can keep going as long as I need to. I don't mind working hard for something I want.
____ I'll work hard for a while, but when I've had enough, that's it!
____ I can't see that hard work gets you anywhere.

CAN YOU MAKE DECISIONS?

____ I can make up my mind in a hurry if I have to. It usually turns out OK, too.
____ I can if I have plenty of time. If I have to make up my mind fast, I think later I should have decided the other way.
____ I don't like to be the one who has to decide things. I'd probably blow it.

CAN PEOPLE TRUST WHAT YOU SAY?

____ You bet they can. I don't say things I don't mean.
____ I try to be on the level most of the time, but sometimes I just say what's easiest.
____ What's the sweat if the other fellow doesn't know the difference?

CAN YOU STICK WITH IT?

____ If I make up my mind to do something, I don't let anything stop me.
____ I usually finish what I start -- if it doesn't get fouled up.
____ If it doesn't go right away, I turn off. Why beat your brains out?

HOW GOOD IS YOUR HEALTH?

____ I never run down!
____ I have enough energy for most things I want to do.
____ I run out of juice sooner than most of my friends.

NOW COUNT THE CHECKS YOU MADE.

____ How many checks are there beside the first answer to each question?
____ How many checks are there beside the second answer to each question?
____ How many checks are there beside the third answer to each question?

If most of your checks are beside the first answers, you probably have what it takes to run a business. If not, you are likely to have more trouble than you can handle by yourself. Better find a partner who is strong on the points where you are weak. If many checks are beside the third answer, not even a good partner will be able to shore you up.

Source: "Small Marketers Aid" No. 71 (Washington, D.C.: Small Business Administration, revised August 1970).

Questions for the Feasibility Study

When considering going into business for yourself, the following questions should be asked. These questions form the basis of the feasibility study.

1. What specific skills are required for success in the business I have selected?
2. Do I possess the required skills or should I team up with a partner who has the skills?
3. Do I have a feasible business idea?
4. Do others, especially experts in the field, believe my idea is feasible?
5. Do I have access to appropriate financing that will keep the business going until it produces a profit?
6. When will business proceeds be sufficient for supporting me and my family?
7. What do members of my family think about the proposed business venture?

lesson
3

Insuring success through a business plan

Overview

Effective business planning is essential for the prospective entrepreneur. Planning is decision making, and thus allows the business person to manage change and minimize risk. Understanding the basic tenets of management, the importance of setting objectives, the tools used in planning, and the meaning of a business plan are critical in being able to do effective business planning. This lesson focuses on the process of management, the importance of strategies and objectives, the social responsibilities of small business, the tools used in planning, the importance of a business plan, the basic elements of a business plan, and the steps in developing a business plan.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the process of management.
2. Describe the importance of small business strategies and objectives.
3. Identify the social responsibilities of small business.
4. Identify the tools for planning.
5. Describe the importance of a business plan.
6. Describe the basic elements of a business plan.
7. Identify and list the steps involved in the development of a business plan.

Getting Prepared

Read Chapters 11, 12 and 13, pages 168-211, in Small Business Management, 5th edition. Be sure that you read the summaries and discussion questions provided in these chapters. Read the Supplementary Material for this lesson, pages 16-18 of this study guide.

Summary of the Audio Lesson

The business plan is the entrepreneur's road map to success in small business. The business plan is important to you as an entrepreneur because: (1) it provides you with a clear path to follow in business; (2) it initially serves as an excellent tool when working with a banker; (3) it can be a useful tool for employee orientation and training; and (4) it helps you develop the management skill of planning.

A business plan may contain many elements, but it basically contains information about yourself, the market, production (if you will be manufacturing a product), personnel, and finance. Gathering information on all these elements allows you to carefully consider each aspect of the prospective business. It can also force you to look at the business venture in a more realistic light. Steps involved in the completion of the business plans are:

1. Decide to go into business.
2. Analyze yourself.
3. Pick a product or service.
4. Research the market.
5. Forecast sales revenue.
6. Choose a location.
7. Develop a production plan (for manufacturing only).
8. Develop a marketing plan.
9. Develop a personnel and organizational development plan.
10. Decide what legal form of organization to take.
11. Choose a record-keeping system.
12. Develop an insurance plan.

13. Develop a sound financial plan.

14. Write a cover letter.

By completing these steps, you will develop a total picture of your business and its workings. The business plan can be used as a good initial planning tool and can also be referred to again and again as your business grows and develops.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 65-66, 73-74 and 77-78 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 178 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. Write a paragraph explaining why you, a would-be entrepreneur, should prepare a business plan.

2. List several ways in which a business plan may be a useful tool for an entrepreneur.

3. When is it appropriate for an entrepreneur to start thinking about preparing a business plan?

SUGGESTED ACTIVITIES

1. Visit your local bank, and discuss with a commercial loan officer the requirements for a small business loan. Compare these requirements with the requirements for developing a business plan.

2. Select an idea for a small business, and go through Steps 1-3 in the business plan. Make sure you state the reasons for your decisions.

SUPPLEMENTARY MATERIAL

How to do a Business Plan

The would-be small businessperson needs to plan for success. Planning is decision making, and allows for the mastering of change. For the prospective entrepreneur, planning is the best and most effective way to reach personal and professional goals and to achieve maximum growth. The very act of planning forces entrepreneurs: (1) to consider all the different elements that must come together to make the business work, and (2) to go through all the steps of getting the business started as well as those needed to keep the business going. Developing a business plan is not a new idea. Big business has been using business plans for years, especially for marketing products. In addition, most creditors and investors require a business plan before they will lend money. Even with these external pressures, less than five percent of entrepreneurs develop a business plan. The best way to insure the success of a new business venture is through a business plan.

THE BASIC ELEMENTS OF A BUSINESS PLAN INCLUDE:

1. Information about yourself -- goals and objectives, likes and dislikes.
2. Information about the market.
3. Information about production.
4. Information about personnel.
5. Information about finance.

Questions of direction are always difficult for the entrepreneur, but knowing the elements of a business plan will help you identify those areas in which more information or assistance is needed.

STEPS IN DEVELOPING A BUSINESS PLAN

1. Decide To Go Into Business -- This decision should be made after some careful self-analysis and consideration of personal and professional goals.
2. Analyze Yourself -- It is important at this point to analyze your strengths and weaknesses, paying special attention to business experience and education.
3. Pick A Product Or Service -- This is a crucial step. Choosing a product or service that you are most familiar with increases the likelihood for success. Generally, you should pick a product that (1) you know intimately because you have business experience in that area; (2) you feel will have a growth rate faster than the economy in general, and (3) you can really get excited about.

4. Research The Market -- This step involves fact-finding. You should find out who your customers are or will be, where they live, their average income, how they buy, why they buy, and at what price. You should also research the competition, and analyze their strengths and weaknesses. The local Chamber of Commerce, local trade associations, and other business people are good sources of information.

5. Forecast Sales Revenue -- After looking at the total market and analyzing the competition, you should estimate your market share. The first year of sales revenues should be estimated monthly. The second year of sales revenues should be estimated on a quarterly basis; and the third year on a yearly basis. The first three to five years are critical in a new business venture. Sales revenues should be estimated with the knowledge of all costs including equipment, supplies, employees and your market share.

6. Choose A Location -- Based upon an analysis of the market and competitors, you should select a site for the business. Regional, city or neighborhood locations need to be considered with regards to the business' product or service. In some businesses such as retailing, the location of the business is critical. In others, location is not of prime consideration.

7. Develop A Production Plan -- This step only applies to those of you who plan to manufacture a product. Some elements to consider in developing a production plan are: size of the plant based on sales forecast, equipment requirements, material requirements, quality inventory, waste control, and space layout for the production process.

8. Develop A Marketing Plan -- Developing a marketing plan forces you to spell out in detail the strategy you intend to use to create customers. You must decide on a mix of marketing tools such as advertising, distribution channels and pricing, trade shows, promotions, personal selling and servicing activities.

9. Develop A Personnel And Organizational Development Plan -- Assembling the right staff to carry out business is essential. You should outline the types and levels of skills, knowledge, and attitudes that are desirable. Job descriptions, levels of authority, organizational charts, and training and development of employees should all be specified in this step.

10. Decide What Legal Form Of Organization To Take -- This poses a legal question and should be answered with a lawyer, so that you can decide what legal form of organization would be best for your business.

11. Choose A Record-keeping System -- You should select a system that will insure accuracy, handle information at low cost, allow for easy retrieval of information, and minimize theft.

12. Develop An Insurance Plan -- You must protect yourself and your venture from any unforeseen events such as fire, theft, liability, etc.

13. Develop A Sound Financial Plan -- This step should cover a three year period. Elements include:

    a. A three year cash budget defining initial cash investment and expected cash flow for the three years.

    b. A projected balance sheet and income statement for the three years.

    c. A break-even analysis to determine the point at which the business starts to make a profit.

    d. A plan for raising additional capital.

14. Write A Cover Letter -- This is not really part of the business plan, but it serves a special purpose. By summing up the plan, and giving attention to its purpose and promise, the cover letter is an excellent selling tool for bankers and investors.

Preparing a business plan forces you to build the venture on paper first. The business plan encompasses all the aspects of the business and is a vital tool if you are to be a successful entrepreneur.

lesson
4

Sole proprietorship or partnership — Which do you prefer?

Overview

One of the first decisions you have to make as a prospective entrepreneur is what legal form of organization your small business will have. The three most common forms of legal organization are sole proprietorship, partnership, and corporation. In this lesson, the following topics will be discussed: the legal forms of sole proprietorship and partnership; the relative importance of the three forms of business organization; the characteristics of a sole proprietorship and a partnership; and the advantages and disadvantages of a sole proprietorship and a partnership.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the relative importance of the three major forms of legal organization.

2. Describe the characteristics of a sole proprietorship and determine the advantages and disadvantages this form of legal organization can provide.

3. Describe the characteristics of a partnership and determine the advantages and disadvantages this form of legal organization can provide.

Getting Prepared

Read Chapter 6, pages 76-87, in Small Business Management, 5th edition. Be sure that you read the summaries and discussion questions provided in this chapter.

Summary of the Audio Lesson

The three major forms of legal organization are: (1) sole proprietorship, (2) partnership and (3) corporation. The importance of these organizational types varies from industry to industry. In the retail and service trades, sole proprietorships are the common form of legal organization, while in the areas of wholesaling and manufacturing, corporations represent the highest percentage of business.

SOLE PROPRIETORSHIP

A sole proprietorship is the form of legal organization in which the business is owned by only one person. Generally, sole proprietorships are small enterprises and show comparatively small profits as a group. This type of business remains a very popular type of organization in the United States because it is accessible to a great number of people. The advantages that make this an attractive type of organization are:

1. Sole proprietorships are easily formed and terminated.
2. Sole proprietors have direct management and control.
3. The sole proprietor receives all profits.
4. The sole proprietorship has flexibility and can make decisions independently.
5. Profits and operating plans need not be reported to anyone.
6. Sole proprietorships have a minimum amount of taxation and regulation compared to other legal business entities such as corporations.

The advantages of a sole proprietorship make it seem very attractive. However, there are some definite disadvantages. They are:

1. The management limitations of the sole proprietor can greatly affect the success of the business. If the sole proprietor is lacking in some essential management skills, the likelihood of business failure is increased.
2. The sole proprietor has unlimited personal liability for the debts of the business.

3. It is more difficult to raise capital for a sole proprietorship because financing depends on the owners assets and ability to borrow.

4. Sole proprietorships have a limited life and exist only as long as the owner lives, unless the business is sold.

PARTNERSHIPS

Unlike a sole proprietorship, a partnership is a legal association formed when two or more individuals agree to start a business as co-owners. Partnerships are a common form of business used in professional and financial service areas. Although as a group their profits are small, they provide invaluable services. There are many advantages to forming a partnership, including:

1. Partnerships are easily formed under state laws.

2. It is sometimes more beneficial for two or more persons to combine resources than for just one person to start a business alone.

3. Partners can generally raise more capital since the financial resources of all the partners support the venture.

4. Partners have a direct say in management and profits.

5. Partnerships have minimum taxation and regulation.

Even with all these advantages, partnerships are the least common form of business organization. This is due, in part, to the following disadvantages of a partnership:

1. All partners have unlimited personal liability.

2. Since more than one person owns control of the business, there may be management conflicts that affect the business adversely.

3. Like a sole proprietorship, a partnership has limited life. Partnerships are generally dissolved upon the death of one of the partners.

4. Transfer of ownership is difficult because of the need for a mutual agreement of all the partners.

When considering the question of forming a partnership, you must consider the many types of partners which can be found in a partnership. "General" partners perform all functions of the partnership, share the profits and have unlimited liability. A "limited" partner only brings money into the business, gets limited profits, and is liable only for the amount of his/her investment. Another type of partner is the "senior" partner who manages the business and makes all decisions. "Junior" partners, on the other hand, buy shares in the firm for a part of the profit.

Before you decide on any form of legal organization for your business, it is important to examine the advantages and disadvantages of sole proprietorships versus partnerships. The success or failure of your business venture may depend on the form of business organization you choose.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 31-32 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 177 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. What are the characteristics of a sole proprietorship?

2. In what fields are sole proprietorships most numerous, and why? What fields are unsuitable for sole proprietorships, and why?

3. List the advantages and disadvantages of a sole proprietorship.

SOLE PROPRIETORSHIP

ADVANTAGES	DISADVANTAGES

4. What are characteristics of a partnership?

5. What various types of partnerships can be organized? Briefly, what are the characteristics of each?

6. In what fields are partnerships especially popular?

7. What information is typically included in a partnership agreement?

8. What do you think are the advantages and disadvantages of a partnership?

PARTNERSHIP

ADVANTAGES	DISADVANTAGES

9. List the possible reasons why there are fewer partnerships than any other form of legal business organization.

SUGGESTED ACTIVITIES

1. Visit a local sole proprietorship and ask the owner what strengths and/or weaknesses this form of legal organization presents his/her special business. Why does he/she favor the sole proprietorship form of legal organization?

2. Visit a local partnership and ask one of the partners what strengths and/or weaknesses this form of legal organization presents his/her particular business. Why does he/she favor a partnership? What types of partners are involved in this partnership?

3. Requirements for forming a sole proprietorship or a partnership vary somewhat from community to community. What are the requirements in your city for each of these forms of legal organization?

lesson
5

The corporate form of business — Is it for you?

Overview

In the fourth lesson, sole proprietorship and partnerships were discussed. There is still another form of legal organization that you might consider for your small business: the corporation. Although corporations are fewer in number than sole proprietorships, they are responsible for about 19% of the sales in the United States. In this lesson, the corporate form of organization will be discussed as well as the reasons for changing from one form of legal organization to another. Specifically, the lesson focuses on: (1) the characteristics of a corporation; (2) the advantages and disadvantages of a corporation; and (3) the factors to be considered in selecting an effective form of legal organization.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the characteristics of a corporation and determine the advantages and disadvantages of this form of legal organization.

2. Determine and describe the factors involved in selecting an effective form of legal organization.

Getting Prepared

Review Chapter 6, pages 76-87, in Small Business Management, 5th edition. Read the Supplementary Material for this lesson, page 30 in this study guide. Read Chapter 6 in the Student Supplement for Small Business Management, 5th edition.

Summary of the Audio Lesson

A corporation is a legal entity authorized to act as a private person and is considered separate and distinct from the persons who own it. In order to form a corporation, three or more persons assume the role of incorporators. Every state requires that a corporation have a corporate charter. A corporate charter includes general purposes of the corporation, identification information, provisions for stock, officers, and directors, and a means for establishing and amending by-laws. Once the charter has been approved by the state, the corporation has permanent life and can only be ended by violation of the charter or by the stockholders. A group of individuals who share stock in the corporation are the real owners.

The type of stock and the amount each stockholder can obtain is stated in the charter. Although the stockholders are the real owners of the company and get regular reports on its status, they usually are too large a group to manage the corporation. A board of directors then exercises control of the corporation and selects officers to manage the corporation.

There are many advantages to selecting the corporate form of legal organization. They are as follows:

1. Stockholders have limited liability (unlike a sole proprietorship).
2. The corporation has unlimited life.
3. Transfer of ownership is relatively simple.
4. The corporation can utilize the expertise and management abilities of recruited officers and managers.

There are also, however, some disadvantages to the corporate form of legal organization including:

1. Corporations are complicated to form.
2. There is heavy taxation and regulation for corporations.
3. Separation of owners and managers may result in the possibility of irregularities or fraud.
4. Some banks require a small corporation to assume unlimited liability.
5. To do business in other states, a copy of the corporation's charter must be filed in that state.

Before you decide whether a sole proprietorship, a partnership or a corporation is best for you, there are some key factors to consider:

1. Ease of formation -- Does it fit with your time and capital?
2. The legal life of the organizational form?
3. Transferability of ownership.
4. Liability -- Do you prefer limited or unlimited liability?
5. Taxation.
6. Regulations.
7. The need for one owner or manager.
8. Incentives -- Which organizational form will ultimately be most satisfactory monetarily and otherwise?

Sometimes situations arise that necessitate a change in your form of legal organization. If there are changes in the personal lives of the owners, or fund raising needs change, a move to another form may be indicated. As a company grows, taxation and regulation may become an issue as may expansion or sale.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 31-34 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 177 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. What are the characteristics of a corporation?

2. How are corporations formed? How are they dissolved?

3. What are the two classes of stock that may be issued by a corporation? Which class of stock pays guaranteed fixed dividends?

4. Who owns, who exercises control over, and who manages a corporation?

5. List the advantages and the disadvantages that you think the corporate form of legal organization provides a small business.

CORPORATION

ADVANTAGES	DISADVANTAGES

6. What are some factors that should be considered before you decide which form of legal organization you want for a particular business?

7. Which form of legal organization is the most difficult to establish? Which is the least complicated?

8. In which form of legal organization is ownership easily transferred? How is it transferred?

9. Which form of legal organization most often allows limited liability to its owners? When might this form not allow its owners limited liability?

10. Which form of legal organization allows funds to be raised most easily?

11. In which forms of legal organization are management-owner conflicts most likely to occur?

12. What conditions might suggest re-evaluation of a chosen form of legal organization?

SUGGESTED ACTIVITIES

1. Determine the requirements for a business to incorporate in your state. Must any additional city or county regulations be met?

2. Visit a local corporation and ask one of the officers why the corporate form of legal organization is favored for this particular business. Ask if you can see a share of stock.

3. Compare the various forms of legal organization in light of the following decision factors: formation, ownership transfer, business life, owner liability, fund raising, taxation regulation, ownership, ownership and management.

FORMS OF LEGAL ORGANIZATION RELATED TO SELECTED DECISION FACTORS

FACTOR	SOLE PROPRIETORSHIP	PARTNERSHIP	CORPORATION
Formation	Least complicated. Person simply starts business activity. May need city or state license.	More complex. Partnership agreement desirable. May need city or state license.	Most complicated. State charter needed. May need city license or federal charter.
Ownership Transfer	Ownership transferred simply by sale or inheritance of business.	No formalities. But mutual agreement necessary -- may be complicated.	Full or partial ownership easily transferred by sale of stock.
Business Life	Limited by life of owner or sale of business.	Limited by life and agreement of partners.	Unlimited life depending on charter and business success.
Owner Liability	Unlimited liability for owner's personal assets.	Unlimited liability for personal assets of at least one partner.	Limited to amount individual invests in stock.
Fund Raising	Limited by owner's personal assets and ability to borrow.	Limited by partners' personal assets and ability to borrow.	Fairly easy to sell stock. Borrowing based on credit capacity of corporation.
Taxation	Business income taxed as personal income of proprietor.	Business income taxed as personal income of each partner.	Business income taxed as corporate profits. Stockholders taxed individually on salary and dividend income.
Regulation	Minimum regulation. Profit not known by public.	Minimum regulation. Profit not known by public.	Subject to heavy regulation. Formal records necessary. Much financial information available to stockholders and public.
Ownership	Generally sole control in owner.	By agreement or equally among partners.	By amount of stock owned by an individual.
Ownership & Management	Owner most often manager.	May have separate owners and managers.	Usually ownership and management separated.

SUPPLEMENTARY MATERIAL

lesson
6

Franchising opportunities

Overview

In addition to buying a new or existing business, there is another way for you to obtain a small business. Franchising is a viable alternative for many entrepreneurs. Franchising has grown markedly in recent decades and holds an important position in the economy. This lesson looks at: (1) the scope and development of franchising, (2) the advantages and disadvantages of franchising, and (3) the analysis of various franchise opportunities.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the scope and development of franchising.
2. Determine the advantages and disadvantages of franchising.
3. Analyze and evaluate franchise opportunities.

Getting Prepared

Read Chapter 7, pages 88-102, in Small Business Management, 5th edition. Be sure that you read the summaries, discussion questions and case studies provided in this chapter.

Summary of the Audio Lesson

Franchising is a method of wholesale and retail distribution in which the franchisee or private distributor agrees to distribute or sell goods or services in a particular area. Even though the local business is independently owned, it functions as part of a large chain. Franchising was started by automobile manufacturers, oil companies, brewers and bottling companies but has spread to a multitude of other industries.

The franchising agreement between the owner or franchisor and the franchisee is usually specified in the form of a contract. There are various types of franchising agreements. The agreement may be between a manufacturer and a wholesaler where the manufacturer arranges a franchise with an independent wholesaler who then serves retail outlets. A manufacturer may franchise an entire retail outlet (manufacturer-retailer). A franchise may be set up between a wholesaler and a retailer. A franchise may be established between a service originator and a retailer. Food chains are an example of this type of agreement.

The advantages of franchising include: (1) financial assistance, (2) training by the franchisor, (3) use of the franchisor's name or trademark, and (4) design of facilities and assistance with publicity. Some of the disadvantages include: (1) loss of a certain amount of control over operations, (2) set pricing, (3) shared profits with the franchisor, (4) restrictive contracts, and (5) negative franchise image.

Before signing a franchise agreement, there are certain factors you should take into consideration. You should be asking questions about the franchisor's reputation, the number of franchises operating and their success, the merchandise, the training you will receive, inventory control and the franchisor's assistance. In addition, you should evaluate the product or service, the terms of the contract you will be required to sign, the market and your own ability to run that particular franchise.

Franchising can provide good opportunities for the entrepreneur. However, as in any business venture, you must consider all advantages and risks associated with franchising.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 37-38 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 177 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

Answer discussion questions 1, 4, 6, 7 and 8 on page 102 of Small Business Management, 5th edition.

SUGGESTED ACTIVITIES

1. Review a recent copy of the Wall Street Journal to find out available resources for franchising opportunities. (You may wish to send away for a booklet on franchising opportunities.)

2. Having identified a specific resource for franchising opportunities, select one of your choices and write to that company to obtain information on the requirements and opportunities for setting up a franchise with that company.

3. Visit three different kinds of franchised businesses (for example, a car dealership, a service station, and a food chain) and ask about their personal experiences with franchising. Compare their answers with the advantages and disadvantages of franchising discussed in this lesson.

4. Taking into consideration the advantages and disadvantages of franchising, is franchising for you? Why?

lesson 7

Specialized assistance — You need it — Where to get it

Overview

It is extremely difficult for one person to have the entire range of management skills necessary to run a small business. Sometimes to keep a competitive edge, or to keep up with new developments, you may find the services of an outside consultant helpful. This lesson looks at the types of specialized assistance which are available to you as a small businessperson including assistance from an accountant, a lawyer, a banker, a management consultant, and other information sources.

Objectives

After reading the study guide assignment and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the study guide material and the Summary of the Audio Lesson included in this study guide chapter.

1. Determine the assistance an accountant can provide for a small business.
2. Determine the assistance a lawyer can provide for a small business.
3. Determine the assistance a banker can provide for a small business.
4. Determine the assistance a management consultant can provide for a small business.
5. Identify other information sources.

Getting Prepared

Read the Supplementary Material for this lesson, pages 40-45, in this study guide.

Summary of the Audio Lesson

No matter how small your business venture is, an accountant's services can be invaluable to you. The information derived from good accounting records can be used to help solve problems, pursue opportunities, help with future plans, and most importantly, to keep up with what is happening in the business. Good accounting records will also tell you what the dollar value of your business is, if you are making a profit, and how much of a profit you are making.

Many entrepreneurs do not realize the importance of legal assistance in their business ventures. However, one of the first things you should do is see a lawyer to avoid legal problems and to take advantage of opportunities provided by the law. A lawyer can assist you in choosing a form of legal organization for your business and can tell you what records the law requires you to keep. Legal assistance is necessary for writing equipment and facilities contracts; and for keeping you informed about the licenses, permits, or federal regulations that apply to your business.

Another valuable source of outside assistance is a banker. A banker can provide you with information relative to the local business economy. By establishing a working relationship with a banker, you will have a person at the bank who knows you and the status of your business and can help advise you as your business grows. Your banker can provide you with various banking services, serve as a resource in investing profits, and provide you with credit information on your customers.

At some point in your business, the need may arise for a management consultant. Usually, a management consultant is brought in to help solve operational or management problems or to assist in some process or procedure. A management consultant will gather information relative to the need or problem and, based on the data, submit a written report recommending specific actions. The reason many people choose an outside management consultant is that the management consultant is an unbiased individual and will have an objective and fresh perspective on the situation. The management consultant may also have expertise in areas of management where the small businessperson does not.

Other sources of outside help include real estate brokers, economists, credit bureau managers, city council members, the Chamber of Commerce and the Small Business Administration. The SBA can be an excellent resource for the small businessperson looking for financial assistance, government contract assistance, or managerial and technical assistance.

SELF-QUIZ

None.

ADDITIONAL REVIEW QUESTIONS

1. What are the advantages and disadvantages of hiring an accountant for a small business?

ACCOUNTANT

ADVANTAGES	DISADVANTAGES

2. What criteria (i.e., background, experiences) would you look for in an accountant for a small business?

3. List the accounting services an accountant can provide to a small business.

4. Why should a lawyer be consulted regarding various business operations?

5. List the legal services that you think a lawyer can provide a small business.

6. What are the advantages of picking a banker and not a bank?

7. What are the advantages of developing a good working relationship with a banker?

8. What are some of the ways in which a management consultant can help a small business?

9. What are the advantages and disadvantages of hiring a management consultant?

MANAGEMENT CONSULTANT

ADVANTAGES	DISADVANTAGES

10. Why, as a small business owner, do you need services provided by a management consultant? Would you have confidence in the management consultant's recommendations? Why?

11. What are some of the services a trade association can provide a small business?

12. Describe the types of services available from the Small Business Administration and three other governmental agencies servicing small businesses.

13. In what ways can the Chamber of Commerce, credit bureau, Better Business Bureau, suppliers and equipment manufacturers, and educational institutions help small businesses?

SUGGESTED ACTIVITIES

1. Contact a local accounting firm and discuss the services they provide for a small business.

2. Contact a local law firm and list the services that the firm provides for a small business.

3. List all of the local banks in your area. Contact one bank and find out the services available to a small business.

4. Contact a small business and ask the owner what banking services are provided to him/her and how often he/she uses the services.

5. Develop a list of management consultants or firms from your local telephone book. If possible, identify their specialized services.

6. Prepare a list of trade associations for five types of small businesses. If possible, determine what services each trade association provides.

***7. Visit your local Small Business Administration Office and talk to a counselor regarding available services.

8. From the other sources of business information discussed, contact one source and identify the services, publications, etc. available to small businesses.

***Strongly suggested

SUPPLEMENTARY MATERIAL

Accounting Services

1. An accountant can help the businessperson develop an efficient accounting system; prepare financial statements and income tax returns; and, if the accountant is certified, audit the accounting records.

2. Accounting services may be performed by a local or national accounting firm, by an employee trained in accounting, by a free-lance accounting service, by professional accounting services that specialize in the entrepreneur's type of business, or by the entrepreneur.

3. The accountant is familiar with the language of business, and important decisions based on an understanding of accounting are constantly made. Expertise is needed at times, usually to help in the decision-making process.

4. Larger accounting firms generally have specialists in different areas including small business.

5. Accounting information can be used as a basis for decision-making in the firm.

Legal Services

1. The volume and complexities of the legal structure require the assistance of a lawyer to identify and interpret the small businessperson's rights, responsibilities, and liabilities under the law.

2. Essentially, the lawyer provides various general functions such as: (a) researching the company records to determine if any past actions violated the law; (b) advising the client by explaining the legal ramifications of various courses of action; (c) guiding the client towards a judgment when evaluating the various courses of action, and (d) representing the small businessperson by communicating as a specialist, understanding the language of the law, and acting as an agent of the business.

3. Although the previous general functions are also available to large businesses, a lawyer can provide valuable assistance to the small businessperson for specific services such as buying property, tax planning, employer-employee relations and credit problems.

4. Generally, good business practice is to use lawyers for legal advice, <u>not</u> business advice.

5. Although many small businesses consider legal services only when their businesses are in trouble, consultation with a lawyer on business operations can help prevent legal problems in the future.

Banking Services

1. A small businessperson should have a good working relationship with a banker because the banker can provide financial services important to the success of the business.

2. The banker who becomes involved in the small business is aware of the business's financial position and can provide valuable assistance concerning over-all financial matters.

3. The banker, because of his/her position in the banking community, can help provide credit information on the small businessperson's customers.

Consultant Services

1. A management consultant can be a generalist by being familiar with all phases of the administration of business; a management consultant can be a specialist by having expertise only in certain areas.

2. A management consultant's prime objective is to detect trouble spots in a business operation and to suggest ways of overcoming them.

3. Management consultants can be costly; therefore, it is important to clearly identify the problem to be solved. Full cooperation regarding any changes must also be maintained.

4. A management consultant is objective in the analysis of the business, and can rely heavily on specialized knowledge and experience.

Other Assistance Information Sources for Small Business Owners

1. A trade association affiliated with the same type of business or industry as the small business can provide valuable services such as specific accounting systems, statistics for the industry, special publications, seminars and workshops, credit reporting, and specialized technical advice.

2. The government is a tremendous business information source for small businesses. There are many governmental agencies that provide information. Some of the agencies and their services are as follows:

   A. Federal Reserve Banks -- Provide reports on business and economic conditions.

   B. Internal Revenue Service -- Publishes the Tax Guide for Small Business yearly.

   C. U.S. Department of Commerce -- Publishes periodic census data of population, manufacturing, and business.

   D. Small Business Administration -- Provides a thorough program of management assistance which includes the following:

      1. Conferences, workshops and courses.

      2. Problem clinics (small group treatment of problems under guidance of a qualified leader).

      3. Individual counseling

         a. SCORE (Service Corps of Retired Executives)

         b. ACE (Active Corps of Executives)

      4. Small Business Institute program (personal counseling from faculty, senior and graduate students of business -- limited to SBA clients).

3. Other groups that can serve as information sources for small businesses are as follows:

   a. Chambers of Commerce

   b. Credit Bureaus

   c. Better Business Bureaus

   d. Suppliers and equipment manufacturers

   e. Educational Institutions (research bureaus, libraries)

lesson 8

Accounting assistance and you

Overview

The services of an accountant can be invaluable to you as a small businessperson. This lesson focuses closely on the services an accountant can provide. Of particular interest is the audio lesson which includes an interview with Judy Nichols, Certified Public Accountant with the accounting firm of Nichols and Nichols in Tempe, Arizona.

Objectives

After reading the study guide assignment and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the study guide material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the accounting services an accountant can provide for a small business.

2. Describe the advantages of hiring an accountant for a small business.

Getting Prepared

Reread all material provided in Lesson #7, "Specialized Assistance -- You Need It -- Where to Get It," in this study guide.

Summary of the Audio Lesson

Good financial records are important for the small businessperson because they measure what the business has done and where it is going. Most people realize that good financial records must be kept for tax purposes. What they seldom realize, however, is that accurate records are also necessary when seeking financial assistance from a lending institution. Many banks and lending institutions evaluate the businessperson's managerial ability by reviewing his/her financial records.

An accountant can provide such services as: (1) establishing the accounting system, (2) training the manager to maintain the accounting system, (3) preparing and interpreting financial statements, (4) giving tax advice, (5) preparing tax returns, (6) assisting with tax planning, and (6) giving general business advice regarding financing.

When selecting an accountant there are several criteria which you should keep in mind. First, you should get a reference from other small business people. Secondly, you should check to make sure that the accountant you select has good credentials. Anyone can call himself/herself an accountant or a bookkeeper. Only Certified Public Accountants and Public Accountants have educational and licensing requirements. Third, the accountant should be willing to deal with a business of your type and should have expertise in your area. Fourth, the accountant should be conveniently located. Finally, you should determine the kind and number of services the accountant can provide for you and see a sample of his/her work.

If you decide to keep your own records, there are several important tips which you should follow to insure your success. They are:

1. Keep a separate bank account for the business in the business's name.

2. Do not co-mingle any business and personal transactions.

3. Deposit all receipts in the business account and identify where the receipts came from (sales, loans, refunds, etc.).

4. Pay all expenses of the business from the business account.

5. Do not pay cash if you can avoid it. Write checks if at all possible.

6. If you cannot avoid paying cash, keep a record of where the cash came from (petty cash, out-of-pocket cash, cash receipt), to whom it was paid, what it was paid for and the amount. You should always get a receipt, if possible.

Putting It All Together

SELF-QUIZ

None.

ADDITIONAL REVIEW QUESTIONS

1. How might you apply the ideas or concepts presented in the audio lesson to your real or hypothetical business?

2. What key idea stands out in your mind which you may not have been aware of prior to listening to the audio lesson?

3. Are there any important elements that were not mentioned in the audio lesson? If so, what are they?

lesson 9

Legal assistance and you

Overview

In many phases of your business venture, some type of legal assistance may be necessary. This lesson focuses on the services a lawyer can provide and when it is critical for a small businessperson to consult a lawyer. Of particular interest is the audio lesson which includes an interview with David Swain, Attorney-at-Law with Burton Phelps and McMahon, P.C. in Scottsdale, Arizona.

Objectives

After reading the study guide assignment and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the study guide material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the types of legal assistance a lawyer can provide.
2. Determine when the advice of a lawyer is critical.
3. Describe the advantages of having a good relationship with a lawyer.

Getting Prepared

Reread all material provided in Lesson #7, "Specialized Assistance -- You Need It -- Where to Get It," in this study guide.

Summary of the Audio Lesson

There are several times when it is critical for the small businessperson to contact a lawyer: when starting a new business, when dissolving or selling a business and when buying an established business. Legal advice can also be valuable when signing contracts, negotiating with employees, reviewing franchising agreements, changing forms of legal organization, settling disputes and when questions of liability arise.

Regardless of when you consult a lawyer, remember that he/she is not there to tell you how to run your business. The lawyer can present each available alternative to you and describe the legal consequences of each alternative. You must make the final decision guided by the lawyer's advice and counsel.

When selecting a lawyer you should obtain references from other business people. You should also make certain that the lawyer is competent in your area of business. If you have difficulty finding a lawyer with expertise in your business area, you should consult the local referral service supported by the bar association.

Putting It All Together

SELF-QUIZ

None.

ADDITIONAL REVIEW QUESTIONS

1. How might you apply the ideas or concepts presented in the audio lesson to your real or hypothetical business?

2. What key idea stands out in your mind which you may not have been aware of prior to listening to the audio lesson?

3. Are there any important elements that were not mentioned in the audio lesson? If so, what are they?

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lesson
10

Consulting assistance and you

Overview

At certain points in your business venture, you may find the services of a management consultant helpful. This lesson looks at the type of assistance a management consultant can provide, why you might need the services of a management consultant, and the advantages of hiring a management consultant. Of special interest is the audio lesson which includes an interview with James Gore, Marketing Consultant with the Phoenix Business Development Center.

Objectives

After reading the study guide assignment and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the study guide material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the services a management consultant can provide.

2. Describe when it might be advantageous to use a management consultant.

Getting Prepared

Reread all material provided in Lesson #7, "Specialized Assistance -- You Need It -- Where to Get It," in this study guide.

Summary of the Audio Lesson

Entrepreneurs cannot be experts in all areas of management. Therefore, a management consultant can be a good source of information for the small businessperson. The consultant sometimes acts as a coach, sometimes as a counselor and sometimes as a devil's advocate.

Marketing is one of the major areas in which a management consultant can be of assistance to the small businessperson. Once the businessperson's needs and objectives are determined, the management consultant can assist him/her in compiling a demographic profile of potential customers, identifying marketing strategies, and determining the appropriate promotional method. Possible promotional methods include: (1) personal selling, (2) yellow pages, (3) newspaper ads, (4) trade journals, (5) magazine ads, (6) television ads, (7) radio ads, (8) direct mail, (9) telephone solicitation and (10) flyers.

In addition to marketing assistance, the management consultant can also advise the small businessperson in the areas of organization, planning, identification of loan sources and identification of proper distribution channels for the businessperson's product or service.

Putting It All Together

SELF-QUIZ

None.

ADDITIONAL REVIEW QUESTIONS

1. How might you apply the ideas or concepts presented in the audio lesson to your real or hypothetical business?

2. What key idea stands out in your mind which you may not have been aware of prior to listening to the audio lesson?

3. Are there any important elements that were not mentioned in the audio lesson? If so, what are they?

lesson
11

The small business administration

Overview

The Small Business Administration (SBA) is a valuable resource for the entrepreneur. This lesson focuses on the types of services the SBA can provide and the audio lesson consists of an interview with Vince Tammalleo of the Phoenix Small Business Association.

Objectives

After reading the study guide assignment and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the study guide material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the types of services available to the small business-person through the Small Business Administration.

2. Discuss the reasons why the Federal Government is interested in assisting small business.

3. Identify the times when it is advantageous for a small business-person to contact the Small Business Bureau.

Getting Prepared

Reread all material provided in Lesson #7, "Specialized Assistance -- You Need It -- Where to Get It," in this study guide.

Summary of the Audio Lesson

Prior to World War II, the federal government recognized the need to increase the productive capacity of small businesses in war time and the Small Business Administration was conceived. In 1953 the Small Business Act established the Small Business Administration (SBA) as a defined effort to provide support to small businesses on a national level. The government has continued to support the SBA's efforts

because: (1) small businesses are responsible for over 40% of the Gross National Product, (2) new products and services are usually developed by small business, (3) there is a steady increase in employment opportunities within small businesses, and (4) small businesses cannot afford access to managerial expertise on a full-time basis as can large businesses.

There are four major types of services available through the Small Business Administration.

1. Financial Assistance Division: This division of the SBA gives potential small businesspersons and current small business owners assistance in obtaining financing. The SBA can assist the small businessperson in preparing the loan package for approaching a bank, can guarantee the banks loan and, in some cases, can make direct loans to the small businessperson when financing through a bank is not possible. The SBA direct lending program is aimed at special constituencies and the amount of funds is limited.

2. Management Assistance Division: This SBA division provides counseling and training in a variety of ways. SCORE (Service Corps of Retired Executives) volunteers assist the small businessperson on a one-to-one basis in various areas of planning and organization. The Small Business Institute (SBI) operates through four-year post-secondary, institutions where juniors, seniors and graduate students serve as management consultants for the small businessperson. ACE (Active Corps of Executives) counselors are members of national organizations who have agreements with the Small Business Association and are identified with the local SBA.

3. U.S. Government Opportunities Division (Procurement Assistance): This SBA division provides opportunities for small business to work directly with the government or on a subcontracting basis with large firms.

4. Minority Small Business Capital Ownership Development Division: This division of the SBA was established by Congress to provide assistance to socially and economically disadvantaged individuals who want to own and operate small businesses and to participate in government contracting opportunities.

On the local level, there are over 100 SBA offices located in all fifty states, Guam and Puerto Rico. These local offices offer services free of charge and co-sponsor many programs which are available to the small businessperson on a cost-recovery basis. In addition, the SBA is active on a national level through the Office of Advocacy, which was

established by Congress to represent the interests of the small businessperson. The Office of Advocacy maintains ongoing communication with all governmental agencies to make the needs of the small businessperson known.

Putting It All Together

SELF-QUIZ

None.

ADDITIONAL REVIEW QUESTIONS

1. How might you apply the ideas or concepts presented in the audio lesson to your real or hypothetical business?

2. What key idea stands out in your mind which you may not have been aware of prior to listening to the audio lesson?

3. Are there any important elements that were not mentioned in the audio lesson? If so, what are they?

lesson
12

Banking assistance and you

Overview

The small businessperson needs many different types of financial services. This lesson focuses on the financial services a bank can provide and the importance of having a good working relationship with a banker. Of particular interest is the audio lesson which consists of an interview with Larry Davis, Vice President and Manager of The Arizona Bank, East Mesa Office.

Objectives

After reading the study guide assignment and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the study guide material and the Summary of the Audio Lesson included in this study guide chapter.

1. Identify the financial services that a bank and a banker can provide the small businessperson.

2. Describe the advantages of having a good working relationship with a banker.

Getting Prepared

Reread all material provided in Lesson #7, "Specialized Assistance -- You Need It -- Where to Get It," in this study guide.

Summary of the Audio Lesson

There are a variety of banking services which are available to the small businessperson. These services include:

1. Operational Services -- checking accounts and savings programs (both long term and short term).

2. Lending Services -- loan acquisition for business and personal reasons.

3. Corporation Services Department -- services such as lock box services and credit card services which assist the businessperson with day-to-day activities.

4. International Departments -- foreign exchange, government guarantees, etc. for businesses whose activities cross international boundaries.

5. National Departments -- services for businesses whose activities cross state lines.

It is important for you as a small businessperson to develop a good working relationship with a banker. As the banker becomes more familiar with what you are doing, he/she can more easily understand your needs and requirements.

Your banker can advise you in many areas of business but it is important to remember that he/she cannot tell you what you need. Your banker is there to assist you after you have determined what your needs are. In determining these needs you should ask yourself the following questions:

1. Why do I need the money?

2. How much money do I need?

3. When do I need the money?

4. For how long do I need the money?

5. Where can I obtain the money?

6. How can I repay the money?

There are three major types of loans available to the small businessperson. The "long-term loan" is usually secured with real estate and, in the case of residential real estate, matures in thirty years. The "commercial loan" has a maturity of twelve months or less; while the installment loan" has a maturity of two to fifteen years.

Your banker can help you decide what type of loan will benefit you most and what kind of repayment method is favorable. Before the loan is made, however, you will be required to personally discuss the loan with your banker and provide him/her with written information about yourself and about your business. Some of the questions your banker may ask are:

1. How did you determine your needs?
2. What are you going to buy?
3. Why do you need it?
4. What is it going to do for your business?
5. How is it going to generate more profit?
6. How do you plan to repay it as a result of new revenue?

In considering your loan request, the banker may use the 6 C's which are Rules of Thumb in Lending. They are:

Character	--	you credit history and your willingness to repay the debt.
Capacity	--	the general condition of your business and your ability to service the debt.
Collateral	--	what is used to secure the debt.
Capital	--	the amount of money requested.
Circumstances	--	general economic conditions.
Coverage	--	the loan-to-collateral value.

Good financial management is one of the keys to success in any small business. The following are tips for good financial management:

1. Plan capital requirements.
2. Be realistic in your plans.
3. Balance your debt and equity.
4. Maintain adequate working capital.
5. Keep yourself up-to-date in your industry.
6. Maintain proper inventory levels and control.
7. Develop a good banking relationship.
8. Do not borrow more money than you need.

SELF-QUIZ

None.

ADDITIONAL REVIEW QUESTIONS

1. How might you apply the ideas or concepts presented in the audio lesson to your real or hypothetical business?

2. What key idea stands out in your mind which you may not have been aware of prior to listening to the audio lesson?

3. Are there any important elements that were not mentioned in the audio lesson? If so, what are they?

lesson
13

How much capital do you need to get you started?

Overview

When you go into business, an important concern is the amount of capital you will need to start and run your business. Once you estimate the amount of capital you need, you will then have to identify sources of capital for your business. This lesson will focus on: (1) the importance of estimating the amount of capital required to start up and maintain business operations; (2) the sources of equity capital; and (3) the sources of long term funds.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Estimate the amount of capital required to start up and maintain business operations.

2. Identify and discuss sources of equity capital that might be used to start up and maintain business operations.

3. Identify sources of long term funds.

Getting Prepared

Read Chapters 8 and 19, pages 103-114, 304-317, in Small Business Management, 5th edition. Be sure that you read the summaries and discussion questions provided in these chapters. Read all Supplementary Material for this lesson, found in this study guide, pp. 65-68.

Summary of the Audio Lesson

In this audio lesson, the word "capital" refers to the total amount of funds employed in the firm. "Equity capital" refers to the owners contributions, and "debt capital" refers to those funds provided by creditors. A new business needs capital for the following purposes: (1) to cover promotional and initial expenses, (2) to provide working capital, and (3) to acquire fixed assets. Initial expenses may include such things as installation of equipment, utility company fees, licenses and permits; any expenses associated with starting up a business. Working capital typically consists of money invested in cash, inventory, or accounts receivable. Fixed assets are permanent assets that are used to produce a product or to offer a service and typically include land, buildings, and equipment.

As a new entrepreneur, you should have detailed financial estimates or projections for the business in order to plan for financial needs. You should include the following in your projections:

1. A capital expenditures budget which lists planned purchases or physical improvements.

2. A projected income statement which shows estimated operating expenses such as rent, labor, and supplies subtracted from a realistic estimate of that period's net sales.

3. A cash flow projection which estimates actual (rather than projected) cash surplus or deficit for each period.

4. A projected balance sheet which includes the capital expenditures budget, a projected income estimate, and estimated cash flow. The projected balance sheet also identifies the ideal balance between these elements.

These projections should be made on a monthly basis during the first year of business. These four estimates give you an overall perspective of the financial needs of your business and give you a guide to follow in the following years.

Equity capital is the owner's contribution to the business. Sources of equity capital in a sole proprietorship are limited to the owner's personal savings, securities or real estate. In a partnership, the same is true, but all partners may contribute. A corporation gets its equity capital from selling shares of stock. Other sources of equity capital include nonprofessional investors, such as relatives or friends, and venture capital groups who buy shares of stock. Small Business Investment Companies (SBICs) and Minority Enterprise Small Business Investment Companies (MESBICs) are two examples of privately owned venture groups eligible for federal funds to boost small business and, thus, provide a source of equity capital for corporations. Another

group that provides equity capital consists of State Business and Industrial Development Corporations (SBIDCs). Owners of these development corporations are usually oil companies, utilities, or large retail chains. Although equity capital is available from all of these sources, the major source of equity funds is retained or reinvested capital which is taken from earnings then put back into the business. This is a conservative approach to financing because there is no risk of losing management control.

Financial estimates and sources of equity capital are essential elements in securing a successful outcome for your business. How well you detail and plan for your financial needs and resources will determine the actual well being of your business.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 45-46, 113-114, in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on pages 177 and 179 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. For what purposes is capital typically used in new and ongoing businesses?

2. Who might prospective entrepreneurs contact to help make estimates of capital required for their particular businesses more realistic?

3. What is equity capital? How and where does it appear on the entrepreneur's balance sheet?

4. What is the risk associated with equity capital?

SUGGESTED ACTIVITIES

1. Contact your local Small Business Administration office and ask what equity funds are available. How does an entrepreneur qualify for such funds?

2. Visit a successful small business in your community. Ask the owner general details about how he or she financed start-up operations. What sources of funds are used now for maintaining operations?

3. List and briefly describe sources of equity funds available to the small business entrepreneur.

4. Assume that you are thinking about opening a hardware store. You estimate that your annual net sales will be about $100,000. To help estimate expenses, you checked with your trade association and read Ratio Analysis for Small Business listings. You found that in your line of business cost of goods sold is typically 66.05 percent of sales, owner-manager salary is typically 7.15 percent of sales, etc. You have started to prepare a projected income statement using ratios to estimate expenses.

What is your estimated net profit for Year 1?

PROJECTED INCOME STATEMENT

	Percent of Sales		Projection	
Net Sales		100.00		$100,000
Cost of Goods Sold		66.05		66,050
Gross Profit		33.95		$ 33,950
Operating Expenses:				
Salary Expense	16.75		$_____	
Postage & Office Supplies	.40		_____	
Advertising & Promotion	1.55		_____	
Donations	.05		_____	
Telephone	.30		_____	
Accts. Receivable Losses	.15		_____	
Delivery Expense	.50		_____	
Depreciation	.60		_____	
Rent	2.70		_____	
Repairs	.10		_____	
Utilities	.80		_____	
Insurance	.80		_____	
Taxes (Excluding Fed. Income)	1.10		_____	
Interest on Loans	.05		_____	
Miscellaneous Expense	1.20		_____	
Total Expenses		27.05		$_____
Net Profit Before Taxes		6.90		$_____

SUPPLEMENTARY MATERIAL

Projected Income Statement
Fun Fashions, Year One

Net Sales		$150,000
Cost of Goods Sold		80,000
Gross Profit		$ 70,000
Operating Expenses:		
Depreciation	$ 7,000	
Payroll	16,000	
Payroll Taxes & Fringe Benefits	2,000	
Management Salary	20,000	
Supplies	500	
Miscellaneous Contract Expense (Cleaning, Trash, Extermination, Equipment Rental)	1,000	
Advertising & Promotion	4,000	
Utilities	2,000	
Telephone	400	
Legal & Accounting Fees	1,000	
Repair & Maintenance	2,000	
Taxes, Licenses, & Fees	2,000	
Insurance	2,000	
Postage & Freight	1,000	
Dues & Subscriptions	100	
Total Expenses		$ 61,000
Net Profit Before Taxes		$ 9,000
Federal Income Taxes (Corporation Only)		2,000
Net Profit		$ 7,000*

*Note: Net Profit transfers to Projected Balance Sheet

Projected Cash Flow Statement
Fun Fashions , Year One

	J	F	M	A	M	J	J	A	S	O	N	D
Cash in Bank (Start of Month)	$	$	$	$	$	$	$	$	$	$	$	$
Petty Cash (Start of Month)												
Total Cash												
Expected Cash Sales												
Expected Collections												
Other Money Expected												
Total Receipts												
Total Cash & Receipts												
All Disbursements (for month)												
Cash Balance at End of Month	$	$	$	$	$	$	$	$	$	$	$	*$17,000

*Note: Cash Balance (End of Year) transfers to Projected Balance Sheet for End of Year.

Adapted from: "Business Plan for Retailers" (Washington, D.C.: Small Business Administration), Small Marketers Aid No. 150.

Projected Balance Sheet
Fun Fashions for End of Year One

ASSETS			
Current Assets:			
Cash	$17,000		
Accounts Receivable	15,000		
Inventory & Supplies	21,000		
Total Current Assets		$53,000	
Fixed Assets:			
Buildings	72,000		
Equipment	18,000		
Total Fixed Assets		90,000	
Total Assets			$143,000
LIABILITIES & OWNERS' EQUITY			
Current Liabilities:			
Accounts Payable	$ 1,000		
Note Payable to Bank	4,000		
Taxes Payable	9,000		
Total Current Liabilities		$14,000	
Long Term Liabilities			
Loan Payable to SBA		50,000	
Total Liabilities			$ 64,000
Owners' Equity:			
Common Stock		72,000	
Retained Earnings		7,000	
Total Owners' Equity			79,000
Total Liabilities & Owners' Equity			$143,000

79

Selected Sources of Capital

TYPE OF MONEY	SOURCE
Equity	Sole Proprietorship Partnership Corporation Nonprofessional Investors Venture Capital Groups SBICs MESBICs SBIDCs Retained Profits
Debt	Commercial Banks SBA Life Insurance Companies Savings and Loan Associations Leasing Companies Commercial Finance Companies Inventory and Equipment Suppliers Personal Finance Companies

lesson
14

Additional capital – Where to get it

Overview

Many times the small businessperson will overlook a very important aspect of the planning process: business forecasting. Business forecasting looks at the probable course of business activity and company sales which is an essential starting point for short and long range budgeting. This lesson looks at the importance of business forecasting and budgeting, the sources of debt capital, and the sales volume necessary to break even.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the importance of business forecasting and budgeting.
2. Identify and discuss the sources of debt capital that might be used to start up and maintain business operations.
3. Estimate the sales volume required for business operations to break even.

Getting Prepared

Review Chapter 8, pages 104-114, and read Chapter 20, pages 330-331 and Chapter 21, pages 335-351, in Small Business Management, 5th edition. Be sure that you read the summaries and discussion questions provided in these chapters. Read the Supplementary Material for this lesson, found in this study guide.

Summary of the Audio Lesson

Debt capital is capital provided by creditors. There is usually an interest charge on this borrowed money and the lender has no ownership control. If you are thinking of obtaining debt capital, there are

many sources. Commercial banks provide various types of financing such as commercial loans, term loans, bank credit cards, equipment financing and leasing, real estate loans, and inventory financing. The Small Business Administration caters to businesses that have difficulty obtaining bank loans. However, they have a ceiling on the amount of the loan because of the somewhat higher risk of the prospective borrower. There are also other sources that will lend you money. These include leasing companies, commercial finance companies, life insurance companies, and savings and loan associations.

When considering your capital needs, a useful devise is a break-even analysis which specifies the relationship between fixed and variable costs and sales revenue at different levels of operation. An accurate break-even analysis is useful because: (1) it tells you the probable level of output needed to cover the expense of being in business, (2) it gives you an estimate of the effect of expansion or contraction of sales volume on profit, and (3) it helps you analyze the prospects of decreasing variable and fixed costs, increasing sales prices, and the number of units which must be sold to increase profits.

Whether you choose to finance your business through equity capital alone or to use debt capital as well, you should do a break-even analysis. It serves as a guide to planning your business expenditures and profits.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 125-126 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 179 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. What is debt capital? How and where does it appear on the entrepreneur's balance sheet?

2. How would trade credit be listed on an entrepreneur's balance sheet? How would it be listed on a supplier's balance sheet?

3. Compare the risk associated with debt capital to that associated with equity capital. Considering only risk, which would you prefer to use? What other factors can you think of that might influence your decision to use debt versus equity capital?

4. What are the potential sources of funds for small business owners who choose to use debt financing?

5. What are the two sources of debt capital most often used by small business entrepreneurs? Why is this so?

6. What is a break-even analysis? What are its uses?

7. To use a break-even analysis, the entrepreneur must think in terms of sales revenue, fixed expenses, and variable expenses. Briefly, what are each of these?

8. What things are portrayed on a break-even chart?

9. Suppose you plan to open a store. You estimate your fixed expenses for the first year at about $9,000. You believe your variable expenses will be about $700 for every $1,000 of sales. Using the break-even formula, what is your estimated break-even point in sales dollars?

SUGGESTED ACTIVITIES

1. Contact your local Small Business Administration office and ask what types of loans are available. Find out how an entrepreneur can qualify for such financing.

2. Visit a local commercial bank branch. Ask what types of loans are available to small businesses and what each type of loan requires of the entrepreneur.

3. List and briefly describe sources of debt capital available to the small business entrepreneur.

4. Using the information and directions given below, prepare a break-even chart. (You can use the Break-Even Chart Worksheet on page 74 of this study guide.)

   (a) Assume that you are seriously thinking about leasing space in a shopping center to open a gift shop. You want to know how many gifts you must sell on the average per day before you begin to make a profit.

   (b) On the Break-Even Chart Worksheet:

      (1) Draw a straight line parallel to the horizontal axis to show fixed costs which would be the same regardless of the number of gifts you sold.

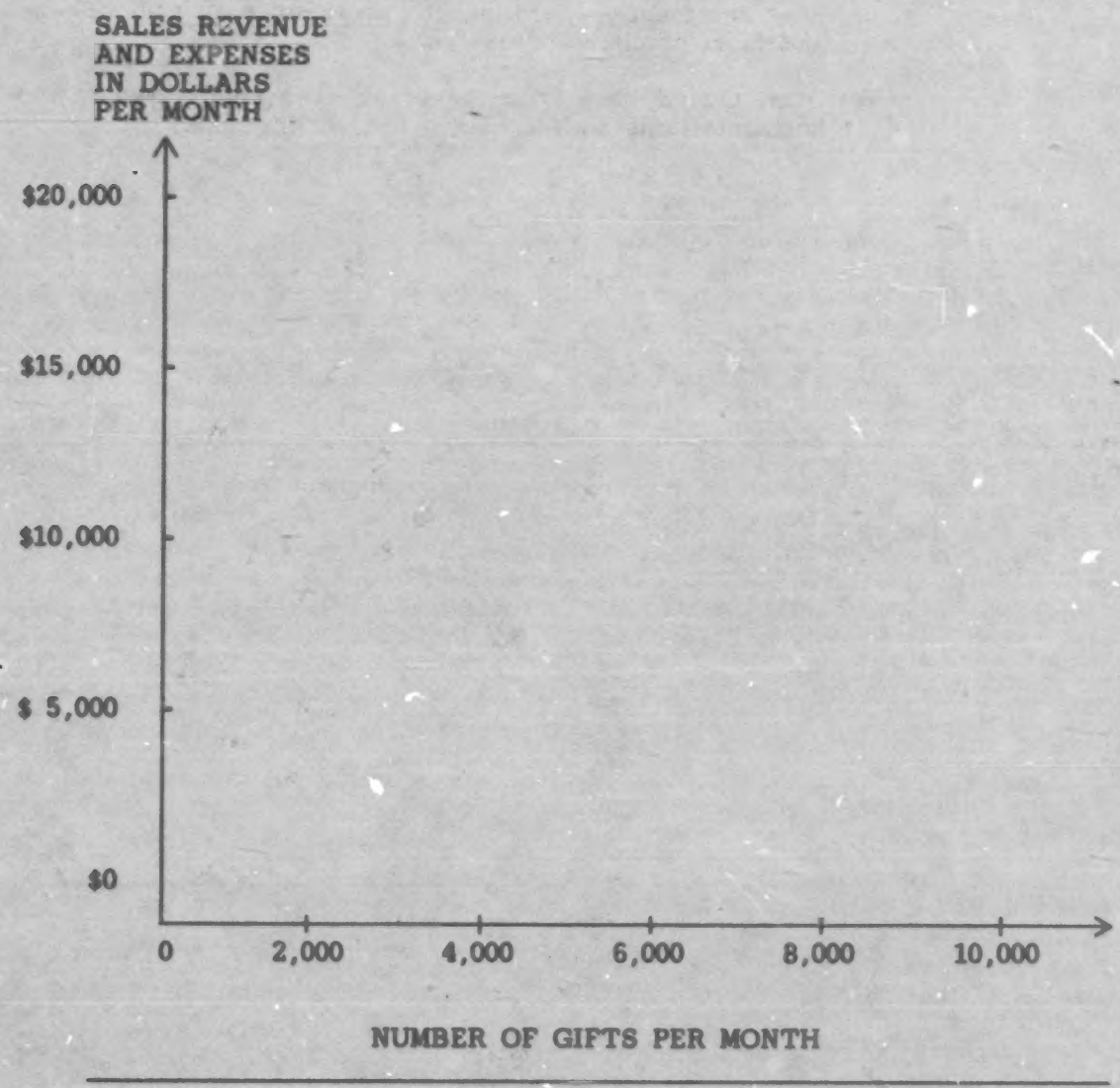
      (2) Draw a second line beginning at the fixed cost point on the vertical axis and increasing at the rate of $.40 per $1.00 of sales. This line shows total costs.

(3) Draw a straight line beginning at zero and increasing at the rate of $2.50 per average gift to show total sales revenue.

(4) Draw a dot where the total cost and total sales revenue lines intersect -- labeling it "break-even point". Shade and label profit and loss areas.

(5) Draw dotted lines from the break-even point down to the horizontal axis and across to the vertical axis.

BREAK-EVEN CHART WORKSHEET #1



5. Use the break-even chart you just constructed to answer the following questions:

(a) Your gift store would begin to make a profit when it brought in how much monthly sales revenue? Or sold how many gifts per month?

(b) Your gift store would begin to make a profit when it sold about how many gifts per day?

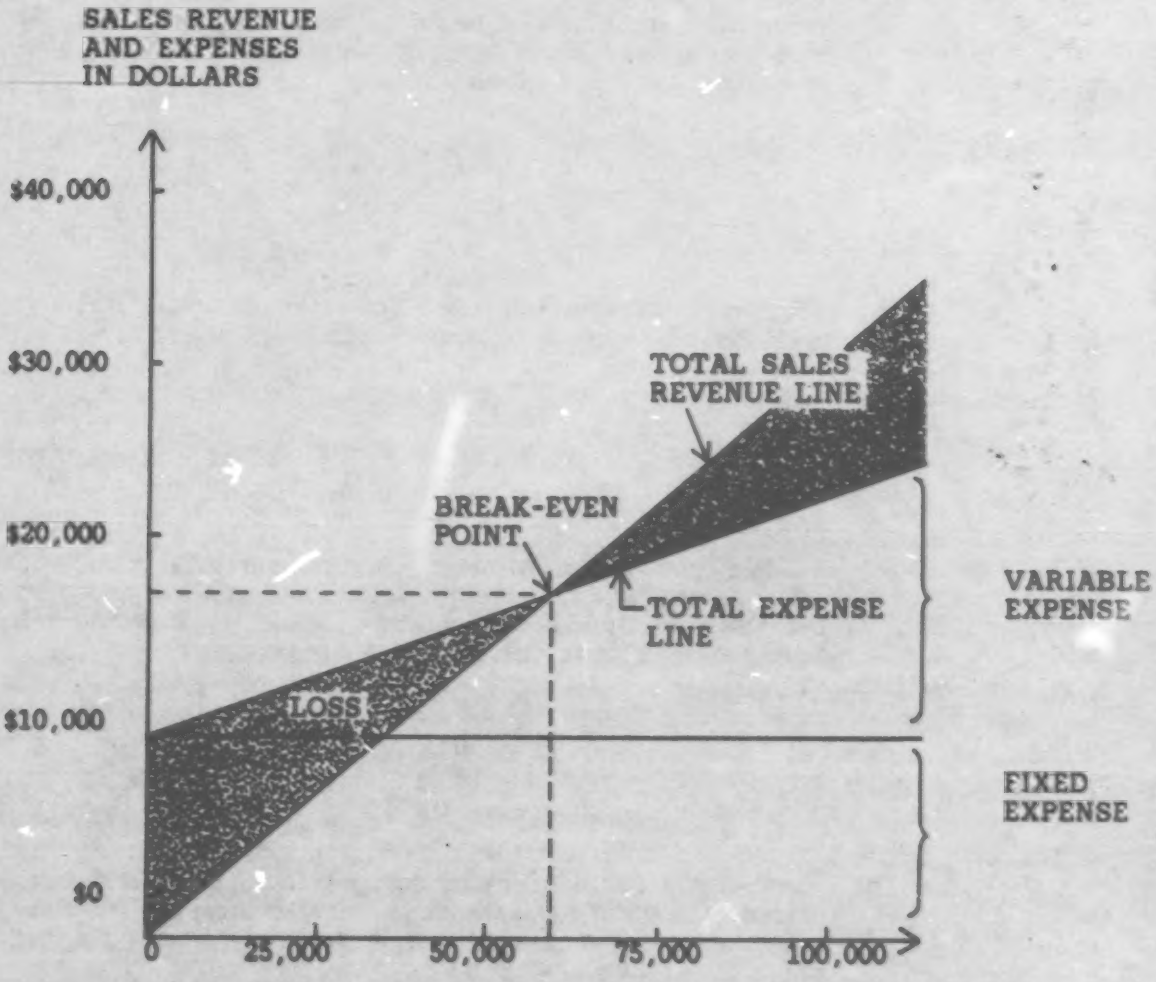
(c) Assume you could maintain current variable costs and sales prices while reducing your fixed costs by closing the store on Sunday afternoons. Would you need to sell more or fewer gifts per month to break even?

(d) Assume you could maintain current fixed costs and sales prices. If your variable costs were to increase for some reason, would you need to sell more or fewer gifts per month to break even?

(e) Assume you could increase sales while maintaining current fixed costs and variable costs. In which direction would your break-even point move?

SUPPLEMENTARY MATERIAL

Example of a Break-even Chart



lesson
15

Finding the right site for your business

Overview

Choosing the right location for your business can be a major factor in its success or failure. This lesson looks at the factors to consider in choosing a geographical area such as a city or town; the factors to consider in choosing an area within a city or town; and the process of identifying a specific location for a business.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Determine factors to consider in selecting a town, city or geographic area for a business.

2. Determine factors to consider in choosing a particular area of the town or city for a business.

3. Identify a specific site to locate a business.

Getting Prepared

Read Chapter 5, pages 115-128, in Small Business Management, 5th edition. Be sure that you read the summaries and discussion questions provided in this chapter. Read all Supplementary Material for this lesson, found in this study guide.

Summary of the Audio Lesson

The factors to consider in choosing a location for your business will vary with the type of business. For example, an owner of a manufacturing business must consider its proximity to suppliers and customers, labor and power costs, and local taxes and regulations. The owner of a retail business, on the other hand, must consider its

location in regards to local traffic patterns, parking availability, neighboring institutions and businesses. Usually the choice of a general geographic area, town or city is influenced by: (1) personal factors, (2) economic factors especially concerning the trading area in which you are interested, (3) population trends and purchasing power within that particular area, and (4) the strengths and/or weaknesses of the competition.

Once you have chosen a geographic area or community for your business, the next step is to identify the general location within that community. Selecting a retail or service location depends on the type of shopping area for which you are looking. You have a choice of selecting a central shopping or downtown district area, a location on a major traffic route, or a suburban shopping district. For a wholesaler, the considerations for a general area within a community include the local market locations, diversified industry, and a lack of competition from other wholesalers. Because of the expenses involved in relocating, manufacturers generally need to consider future conditions within a locality rather than present costs.

In choosing a specific location, a number of factors must be considered. Amount of rent, the accessibility of the business, cost of warehouse space (in wholesaling), taxes, and availability of employees are only a few of these factors.

Taking the time to go through a thorough site selection process will allow you to increase your odds for succeeding in business. You can anticipate problems and avoid them with adequate information about your prospective location.

Putting It All Together

SELF-QUIZ

None.

ADDITIONAL REVIEW QUESTIONS

1. How can the size of a trading area be estimated?

2. Discuss each of the following statements:

   (a) It is sound judgment to locate away from your competition.

   (b) An area with sporadic income patterns and high unemployment would be a poor location for any business.

   (c) Good service is the prime customer or clientele consideration, not store location.

3. What types of stores benefit most from locating near their competition?

4. What market do downtown stores and service businesses serve? Why?

5. Why are long-range factors more important to a new manufacturer than to a retailer or service business?

6. When selecting a location, why would a retail or service business consider different factors than a wholesaler or manufacturer?

7. What is meant by the accessibility of a business firm?

SUGGESTED ACTIVITIES

Using the type of business you have selected (if you have not already selected a specific type of business, choose a hypothetical one), determine the following:

1. **Identify the town, city or geographic area in which you plan to locate. Discuss your personal reasons for locating there.**

2. **Collect various pieces of information on the economic characteristics, the population trends and the purchasing power of this area. (Obtain from the Chamber of Commerce).**

3. **List information on what you consider your major competition to be.**

4. **Identify the factors of information you would consider in choosing a particular area of the town, city, or geographic area. Be specific!**

5. **Identify a specific location and describe other areas you considered for your business, but chose not to select. Describe why this site location is best for your business.**

SUPPLEMENTARY MATERIAL

Site Analysis Checklist

Before deciding on the site for your business, ask yourself the following questions. The answers to these questions should serve as a guide in your decision-making process.

A. What are the population characteristics?
   1. What predictions are being made about the population for the community?
      a. It is growing
      b. It is large and stable
      c. It is small and stable
      d. It is declining

   2. Which term best describes the income distribution of the community?
      a. Mostly wealthy
      b. Wealth well distributed
      c. Mostly middle income
      d. Poor

   3. What kind of housing arrangements do most permanent dwellers have?
      a. Own homes
      b. Pay substantial rent
      c. Pay moderate rent
      d. Pay low rent

B. What economic factors are involved in the community?
   1. How established is the neighborhood?
      a. Old and well established
      b. Old and reviving
      c. New and promising
      d. Recent and uncertain

   2. How diversified are the businesses in the community?
      a. Many and varied kinds of businesses
      b. Many of the same type of businesses
      c. Little variety
      d. One major industry

   3. What is the major industry source?
      a. Manufacturing
      b. Farming
      c. Retailing

   4. How stable is the community?
      a. Very stable
      b. Satisfactory
      c. Moderately stable
      d. Fluctuates widely

5. What is the growth trend of the area?
   a. Highly satisfactory
   b. Satisfactory
   c. Static
   d. Declining

6. What is the future of the community?
   a. Most promising
   b. Satisfactory
   c. Uncertain
   d. Doubtful

C. What are the community characteristics?
   1. How would you describe the overall appearance of the city?
      a. Homes are neat and clean
      b. Homes are rundown and shabby
      c. Lawns, parks, streets and other public areas are clean and attractive

   2. Are there adequate support facilities for your business needs?
      a. Banking
      b. Utilities
      c. Professional services
      d. Transportation

   3. Are there adequate facilities for your personal needs?
      a. Schools
      b. Churches
      c. Amusement centers
      d. Medical and dental services

D. What is the competition like?
   1. How many competing stores are in the area?
      a. Too many
      b. Many
      c. Average
      d. Few

   2. How would you classify the competition?
      a. Old and well-established
      b. Average
      c. Unattractive

   3. How many chain stores are in the community?
      a. Many well-established chains
      b. Average number
      c. Few chains
      d. No chains

4. How many chain stores are located in close proximity to your proposed site?
   a. On the same block
   b. On the same side of the street
   c. Across the street
   d. Next door

5. How many independent stores like yours are located in the area?
   a. On the same block
   b. On the same side of the street
   c. Across the street

6. What type of management does the competition have?
   a. Alert and progressive
   b. Above average
   c. Average
   d. Slow to change

E. What are the characteristics of the physical plant?
1. How adequate is the physical plant for your needs?
   a. What is the square footage of the facility?
   b. Is the building shape conducive to your needs?
   c. Is there adequate frontage space?
   d. Is there adequate air conditioning?
   e. Is there adequate lighting?
   f. In what condition is the building?
   g. Is there adequate display space?

2. How would you characterize the traffic flow past this site?
   a. Sex
   b. Average age
   c. Destination
   d. Number of passers-by
   e. Automobile traffic count
   f. Peak hours of traffic flow
   g. Percent location of site

3. What kind of parking is available?
   a. Large and convenient
   b. Large enough but not convenient
   c. Convenient but small
   d. Completely inadequate

4. Are there any things you would consider to be unfavorable about this location?
   a. Cemetery nearby
   b. Hospital nearby
   c. Undertaker nearby

d. Playground nearby
e. Poor sidewalks and pavement
f. Fire hazards
g. Vacant lot - no parking possibilities
h. Unsightly neighbourhood buildings

5. How many vacancies are in the neighborhood?
   a. On the same side of the street
   b. Across the street
   c. Next door

6. How is the specific location situated on the city block?
   a. Corner location
   b. Middle of the block
   c. Best side of the street
   d. Worst side of the street

7. Are there any professional people with offices located in the block?
   a. Doctors
   b. Dentists
   c. Lawyers
   d. Other

lesson
16

Outside resources for site selection

Overview

No matter what type of business you are in, there are outside resources to help you in choosing the right location for your business. This lesson focuses on the sources of outside help which you can use when selecting a site location.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objective. Check yourself to see if you have gained the skills described in the objective. If you have difficulty with the objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Identify the sources of outside help available to the entrepreneur seeking to choose a business location.

Getting Prepared

Review Chapter 9, pages 115-128, in Small Business Management, 5th edition. Be sure that you review the summaries and discussion questions provided in this chapter.

Summary of the Audio Lesson

There are many sources of outside help for you to consult when you are looking for the right location for your business. Bankers have access to published reports on retail trade, business establishments, income, employment and many other areas. They can be a great source of information and assistance. Chambers of Commerce also can be of service in recommending desirable locations within a certain area. Trade associations and government agencies such as the Small Business Administration provide services in site selection. Commercial realtors offer site location information on industrial parks and other commercial realty for lease or purchase. Other sources of information include railroads and utility companies which offer information on the availability and cost of transportation, water, power, fuel and telephone.

Each of these sources can be very useful to the new entrepreneur. Since each source has a different perspective and a different interest, it may be wise for you to seek out more than one source to get differing opinions on your intended site before committing to it.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 51-52 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 178 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. What are the possible sources of outside help in the choice of your business location?

2. What are the advantages of utilizing outside help in your choice of location?

3. Why would outside sources be interested in assisting you with the choice of location for your business? (For example, why would a bank be interested in assisting you?)

SUGGESTED ACTIVITIES

1. Visit the economic department of your local bank, and ask them to assist you in your site selection. (If you are not really selecting a location, use your hypothetical business, and explore location possibilities).

2. Visit your local Chamber of Commerce, and find out what types of location assistance they can provide.

lesson 17

Your facility — Building, equipment and layout

Overview

Once you decide on the site for your business, there are many things to consider about the actual building, its layout and the equipment you will need. This lesson looks at the ways in which to evaluate a facility for a business, the most effective layout for a business, the equipment needs for a business, and the criteria for creating an effective business image through your building's appearance.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Determine the information needed to evaluate a building (physical facility) for a business.
2. Identify the equipment needs for a business.
3. Determine the most effective physical layout for a business.
4. Describe the necessary criteria needed to create an effective business image through the physical appearance of the building and its layout.

Getting Prepared

Read Chapter 10 pages 129-166, in Small Business Management, 5th edition. Be sure that you read the summaries, discussion questions and case studies provided in this chapter.

Summary of the Audio Lesson

When selecting a building or physical facility for your business, you should consider the nature or function of the business, the actual physical condition, the exterior appearance, and utilities such as lighting, plumbing, etc. The building you choose should be able to be physically set up for your particular business. It should provide for the safety of your customers as well as promote the business by its appearance.

The term equipment refers to those items necessary to complete the selling and non-selling functions of a business excluding the building, people, and merchandise or materials. Your decision to purchase or lease equipment depends on the type of business you have and the equipment you think you will need. Once you decide on the type of equipment you need, you should consider the most efficient use of that equipment in the physical layout of your facility. An effective physical layout provides for the maximum use of the building itself and reinforces the purpose of the business. For example, in retailing, designing the layout to maximize sales is of the utmost importance.

An important consideration in selecting a facility is its appearance. This is the first identification customers will make with your business, and their initial impression could help or hinder your business venture. The outside appearence of your building should attract customers while the inside layout and decor should reinforce the customers' impression of your product or service.

The physical facility you select has a great bearing on the effectiveness of your business operation. It can attract customers, maximize production or sales, and create a useful business image to the public.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 57-58 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 178 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. Should a manufacturer or wholesaler place as much emphasis on the building front as the owner of a retail store does?

2. What factors must be considered when evaluating a building for a:

   a. Retail Business?

   b. Service Business?

   c. Wholesale Business?

   d. Manufacturing Business?

3. What are some of the various types of equipment needed for a:

   a. Retail Business?

b. Service Business?

c. Wholesale Business?

d. Manufacturing Business?

4. What are some of the factors necessary to consider when arranging the equipment in a building?

5. What layout factors influence each of the following businesses?

a. Retail Business

b. Service Business

c. Wholesale Business

d. Manufacturing Business

6. How important is the physical appearance of a building for customer attraction?

SUGGESTED ACTIVITIES

1. List the factors you would consider when evaluating a building for your business.

2. Draw a sketch of your building. Include a supplementary sketch showing the front of the building.

3. Estimate the cost of your building in terms of monthly payments. Include the costs of utilities and maintenance.

4. Develop a list of the various types and amounts of equipment needed for your business. Include the costs of each. Survey a business similar to what you plan to open as a source of information.

Type of Equipment	Number Needed	X Unit Cost	= Cost
		$	$
		$	$
		$	$
		$	$
		$	$
		$	$
		$	$

5. Prepare a diagram of the layout for your business by investigating the layout of businesses similar to yours. Also, contact equipment, furniture and fixture manufacturers or distributors for layout assistance.

   Use graph paper to complete your diagram.

6. Describe in detail the physical appearance of your building and the image it would project.

lesson
18

The government and you — Regulation and taxes

Overview

Before you can start your new business, there are many factors to consider. This lesson focuses on: (1) the importance of contracts to the small businessperson, (2) the necessity for operating permits and licenses and (3) the tax liability of a business.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the importance of contracts to the small businessperson.
2. Identify the necessary operating permits and licenses needed to start a business.
3. Describe the tax liability of a business.

Getting Prepared

Read Chapters 24 and 25, pages 412-442, in Small Business Management, 5th edition. Be sure that you read the summaries, discussion questions and case studies provided in these chapters as well as the Supplementary Materials provided for this lesson in this study guide.

Summary of the Audio Lesson

Licensing contracts have a great effect on small business. The degree of regulation varies with the type and location of your business. Licensing regulations are designed to offer protection for the public's health, safety, and welfare. Since licensing regulations vary from state to state, and locality to locality, you should check with your state, municipal, and county authorities to get the licensing requirements for your business. Most licenses require a fee payment and a written application.

The primary tax responsibility of a small business is to pay all legally required taxes and there are many kinds of business taxes. Every small business must pay federal taxes which include individual or corporate income taxes, employment taxes, social security taxes, excise taxes and customs taxes. The three major state taxes a small business-person must pay are unemployment taxes, income taxes, and sales tax. In addition, the state may also have capital stock taxes, premium taxes, incorporation fees, and death taxes. The third major type of taxation is local. Usually, local taxes consist of real estate taxes, personal property taxes, and taxes on gross receipts of business. Some larger cities also have an income tax.

Since tax laws and regulations are complex, it is important for you to utilize the services of a tax advisor or competent accountant to prevent costly mistakes and to save money.

In addition, to paying your taxes, you should be aware of tax planning and tax management. Tax management means that you know the kinds of taxes you need to pay, how much they are, and when they are due. Tax planning means you will have the funds when you need them. In order to run your business successfully, you need to be on top of all licensing and tax liabilities and regulations.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 143 and 149-150 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on pages 179 and 180 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. In what ways do government regulations and requirements restrict business activity?

   a. Federal level

   b. State level

c. Local level

2. What is OSHA? Why is it important to a business?

3. Why are government regulations necessary for business?

4. Should there be a local government regulation concerning business participation in community affairs?

5. What are some alternatives, beside taxation, for governments to raise money?

6. How are federal taxes spent by the U.S. government?

SUGGESTED ACTIVITIES

For your business, complete the following:

1. List the required licenses or permits.

2. Describe the local zoning law requirements for your location.

3. List all applicable building codes.

4. List all the various taxes for which you will be responsible. Include Federal, State, and local tax liabilities.

SUPPLEMENTARY MATERIALS

Tax Effects in Business Activities

BUSINESS ACTIVITY	
	TAXES PAID ON INVENTORIES ARE BASED ON THE VALUE OF THE INVENTORY. SELECTION OF FISCAL YEAR-ENDING TO COINCIDE WITH LOW INVENTORY LEVELS WILL SAVE TAXES. METHOD OF VALUING INVENTORY WILL AFFECT INVENTORY AMOUNTS. INVENTORY-REDUCTION PROGRAMS PRIOR TO ASSESSMENT DATES ARE EFFECTIVE IN REDUCING TAXES.
ASSET ACQUISITION	SELECTION OF THE BEST DEPRECIATION METHOD TO BE USED CAN AFFECT PROFITS. EVALUATION OF THE TAX BENEFITS OF LEASING COMPARED WITH OWNING SHOULD BE EXPLORED. CONSIDER THE TAX BENEFITS OF USING OR BUYING SECONDHAND OR USED EQUIPMENT.

EMPLOYMENT/WAGES	CAREFUL EVALUATION OF HOW MANY WORKERS ARE REQUIRED WILL KEEP EMPLOYER'S CONTRIBUTIONS TO SOCIAL SECURITY TAXES AND UNEMPLOYMENT TAXES AT A MINIMUM. TAX EFFECTS OF WAGE PAYMENT PLANS BASED ON STOCK OPTIONS AND DEFERRED PAYMENTS OF WAGES SHOULD BE CONSIDERED.
PROFIT PLANNING	LEGAL FORM OF BUSINESS CAN OFFER TAX ADVANTAGES WHICH INCREASE PROFITS. MAXIMIZING LEGITIMATE TAX DEDUCTIONS SHOULD BE A MAJOR THRUST OF FINANCIAL PLANNING.
CAPITAL GAINS	TIMING OF TRANSACTIONS SUCH AS SALE OF ASSETS AND ACQUISITION OF NEW ASSETS OR NEW BUSINESSES SHOULD CONSIDER THE IMPACT ON TAXES.

Summary of Deposit Rules for Withheld Income Tax and Social Security Taxes

	DEPOSIT RULE	DEPOSIT DUE
1.	IF AT THE END OF A QUARTER THE TOTAL UNDEPOSITED TAXES ARE LESS THAN $200:	NO DEPOSIT REQUIRED. PAY BALANCE DIRECTLY TO THE INTERNAL REVENUE SERVICE WITH YOUR QUARTERLY RETURN, OR MAKE A DEPOSIT, IF YOU PREFER.
2.	IF AT THE END OF A QUARTER THE TOTAL UNDEPOSITED TAXES ARE $200 OR MORE:	ON OR BEFORE LAST DAY OF NEXT MONTH. IF $2,000 OR MORE, SEE RULE 4.
3.	IF AT THE END OF ANY MONTH (EXCEPT THE LAST MONTH OF A QUARTER), CUMULATIVE UNDEPOSITED TAXES FOR THE QUARTER ARE $200 OR MORE, BUT LESS THAN $2,000:	WITHIN 15 DAYS AFTER END OF MONTH. (FOR THE FIRST 2 MONTHS OF THE QUARTER, NO DEPOSIT IS REQUIRED IF YOU PREVIOUSLY MADE A DEPOSIT FOR A QUARTER-MONTHLY PERIOD THAT OCCURRED DURING THE MONTH UNDER THE $2,000 RULE IN ITEM 4, BELOW.)
4.	IF AT THE END OF ANY QUARTER-MONTHLY PERIOD, CUMULATIVE UNDEPOSITED TAXES FOR THE QUARTER ARE $2,000 OR MORE:	WITHIN 3 BANKING DAYS AFTER THE QUARTER-MONTHLY PERIOD ENDS.

lesson 19

The human resource factor

Overview

The success of your company depends, to a great degree, on the caliber and capabilities of your employees. This lesson looks at the importance and function of personnel management, the preparation of job descriptions, as well as the recruitment and selection of personnel.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the function of personnel management.
2. Prepare job descriptions for positions within a business.
3. Determine the factors to consider for recruitment and selection of personnel.

Getting Prepared

Read Chapter 15, pages 221-244, in Small Business Management, 5th edition. Be sure that you read the summaries, discussion questions and case studies provided in this chapter. Read Chapter 15 in the Student Supplement for Small Business Management, 5th edition.

Summary of the Audio Lesson

Personnel management has many functions, but basically it is concerned with the effective use of the peoples' skills. Thus, recruiting and hiring qualified personnel is a major responsibility of the personnel manager. Other responsibilities include: (1) classification and description of jobs and preparation of wage and salary scales, (2) counseling employees, (3) dealing with disciplinary problems, (4) negotiating with labor unions, and service union contracts, (5) development of safety standards and practices, (6) management of benefit programs, (7) evaluation of employee performance, (8) assisting

in employee development and advancement, (9) planning of training programs, and finally, (10) remaining knowledgeable about developments in personnel management.

One of the areas of responsibility mentioned above is preparing job descriptions. A job description is a summary of the important facts about a particular job. It includes the employees' duties, the way in which the duties will be performed, the range of responsibility, the skills required for the job, and why the job is necessary. Having a good job description allows you to clarify roles in your company, delegate responsibilities, and evaluate the performance of those duties in relation to the company's functioning. The job description, however, is only a description of the job itself and not the individual employee's performance.

Recruiting and selecting qualified personnel is a major area of responsibility in personnel management. There are several ways in which you can recruit personnel. You can actively seek personnel through classified ads, private or public agencies or through trade groups and schools. Many times, however, personnel will come to you and inquire about job possibilities.

The four major steps in selecting personnel are: (1) review of the resume and application, (2) employment tests, (3) the personnel interview, and (4) reference checking. Some standardization of this process should be implemented so that each of your prospective employees goes through the same process.

Personnel management affects the functioning of your entire business because it is the combination of human resources that makes any business really successful.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 91-92, and 94-98 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 178 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. What are some ways to build and maintain employee morale?

2. What might result from poor personnel management policies?

3. What are some alternative methods of collecting information for a job description besides using your own employees?

4. What intrinsic value is there in asking an employee for input to prepare a job description?

5. How could job descriptions be used to aid employees in developing long-range goals?

6. Why would an active recruitment procedure be more beneficial to an entrepreneur than waiting for walk-ins?

7. What basic steps should an employer take before an applicant is selected?

8. Are employment tests worthwhile for the small businessperson?

SUGGESTED ACTIVITIES

1. Interview a personnel manager of a medium size to large business similar to the business you plan to start. Find out what their function is at that business and develop a task analysis of the position for your business.

2. Prepare a job description for yourself within your business (real or hypothetical) and at least two other major positions within that business. If you are developing a sole proprietorship, project future expansion of your company for the other two major positions.

3. Develop a classified ad for one position within your company. (Use the job description developed for Activity #2).

4. Develop the criteria you would use for selecting a candidate for the above position.

lesson
20

Selecting, training and motivating your employee

Overview

Personnel management extends into many areas of your business. This lesson looks at some of the other areas of personnel management including interviewing techniques for selection of employees; developing training programs for employees, preparing organizational charts; and developing employee policies on fringe benefits, compensation, transfers and promotions.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectivas. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe interviewing techniques as part of the selection process.
2. Define the objective to be achieved by developing a training program.
3. Prepare an organizational chart for a business.
4. State employee policies on fringe benefits, compensation, transfers and promotions.

Getting Prepared

Read Chapters 14 and 15, pages 212-244, in Small Business Management, 5th edition. Be sure that you read the summaries, discussion questions and case studies provided in these chapters.

Summary of the Audio Lesson

Employees often require training to: (1) initially learn their jobs, (2) do their jobs more effectively, or (3) advance to other jobs in the company. Before you can develop a training program, you must decide what the goal of that training will be. You may want to improve your employees' performance, to modify their attitudes, or to increase their work efficiency. Once you decide why you need a training program, the next step is to figure out what the employee needs to learn. Is it a certain skill or attitude that must be learned? Does the employee need information or direction? The type of training has a great effect on achieving your goals. Can you train on-the-job or will you use a classroom setting? Will you need a combination of the two? To a certain extent, the subject matter will determine both the type of training and the method of instruction. Other factors you need to consider in developing your training program are: (1) the physical facilities you will need, (2) the length of time required for training, (3) the likely instructor, (4) the costs of the program, and (5) the controls you will use to determine results of the training.

Organizing is a very important management function. How your business is organized will determine how effectively it functions. A helpful tool for organizing a business is called an organizational chart. It shows at a glance who is responsible for the major activities of the business. It also shows the lines of authority. With a very small business, the organizational chart may be simple. The owner-manager at the top has all personnel reporting to him/her. Later, as the business grows, the organizational chart may become more complex.

Depending on the nature of your business, your policy for employee benefits may include some or all of the following: vacations, holidays, group insurance, hospitalization, surgical benefits, unemployment compensation, jury duty, savings plan, retirement plan, and profit-sharing. Besides benefits, you will need to make policy decision on compensation (wage and salary setting). You may want to set an hourly wage or pay a set salary to your employees. If you have written good job descriptions and prepared a thorough organizational chart, you will have an excellent aid in determining policy for employee transfers and promotions.

There are many aspects to consider in organizing your business and planning for personnel, but the planning process will help you to have a smoothly operated business.

Putting it all I: All Together

SELF-QUIZ

Do the review questions found on pages 91, and 94-96 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 178 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. What are some of the most common interviewing techniques used by an employer?

2. What is the importance of establishing rapport with the applicant?

3. What kinds of information would an interviewer evaluate for a position?

4. What is the role of the interviewer in terms of listening in the interview?

5. Give an example of how biases may affect the interviewing process.

6. What are some alternative methods of training employees without using formal instruction?

7. What is the short-range value of training employees? The long-range value?

8. What is the importance of the following types of training?

   (1) Orientation

   (2) Training For Present Job

   (3) Training for Promotional Opportunity

9. Before a task is delegated to an employee, what necessary criteria should be considered concerning the task and the employee to carry out that task?

10. Why might it be important to show a new employee the organizational chart of your business?

11. What is the difference between a transfer and a promotion?

12. What types of wage incentives might motivate an employee on a job?

13. What are some ways to build employee morale on the job?

SUGGESTED ACTIVITIES

1. In a role-playing interview with a neighbor or friend, conduct an interview for an opening in your business. Utilize one of the job descriptions you prepared in Lesson 19.

2. For your real or hypothetical business, develop an orientation training program for all new employees. How would you implement such training?

3. Develop an organizational chart for your business.

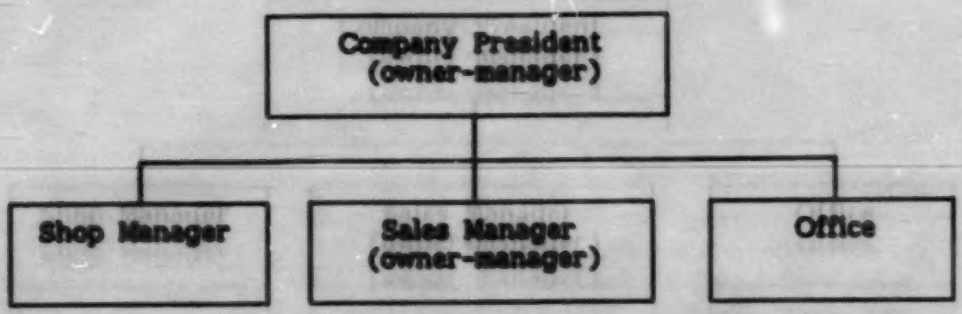
4. Develop a list of fringe benefits for your business.

5. What compensation policies will you initiate for your company?

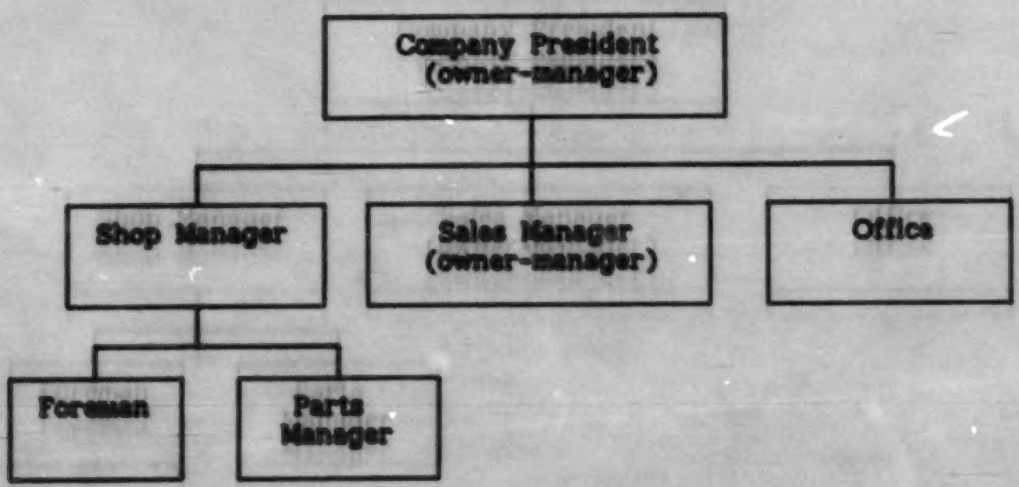
SUPPLEMENTARY MATERIAL

Below are examples of organizational charts for various types of small businesses.

1. An organization chart for a small service business will reflect the fact that the owner-manager does most of the managing himself/herself. For example, an organization chart for a small service business might look like this:*

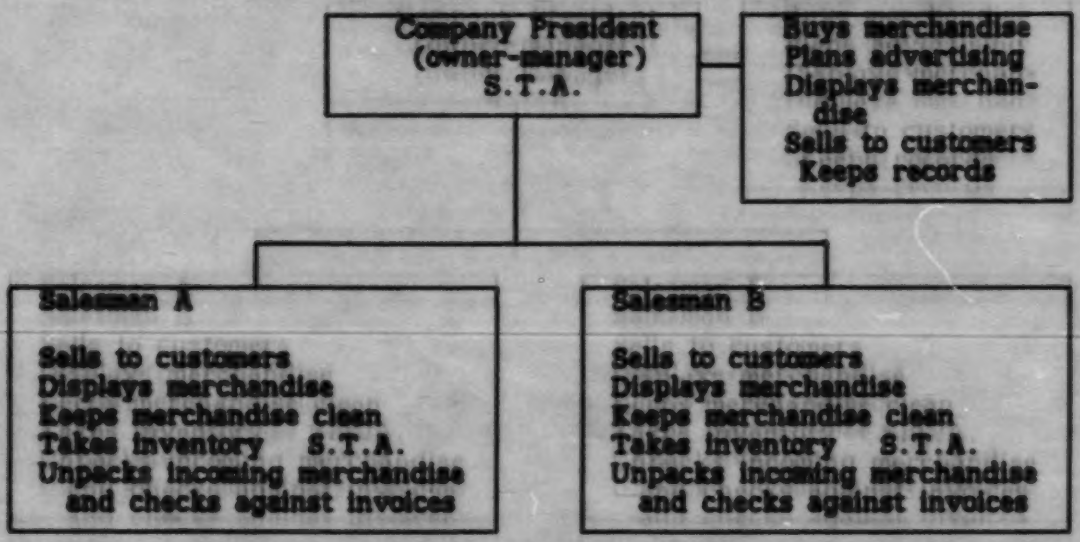


As the service business grows, its organization chart could look like this:



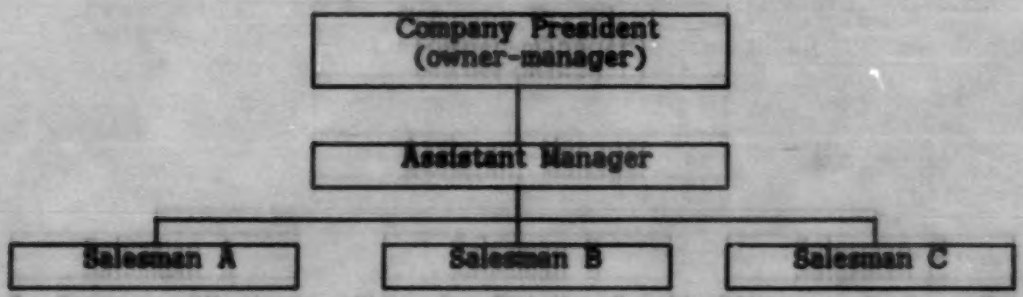
* Source: "Business Plan for Small Service Firms" (Washington, D.C.: Small Business Administration), Small Business Administration Management Aid. No. 153.

2. An organization chart for a small retail store will reflect the fact that the owner-manager does most of the managing work himself/herself. For example, if your store is run by yourself and two salespersons, the chart should show what you expect each of them to do. It could look like this:*



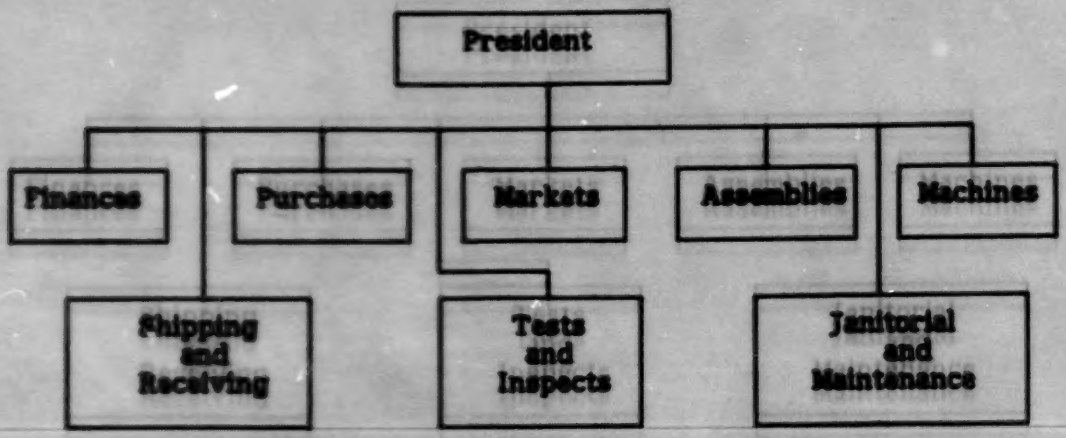
A small store exists to serve customers. They want to be served promptly and do not like to be ignored even by the stock boy. A device to insure that they are recognized is S.T.A. -- Special Team Assignment. When all the salespeople are tied up, the available employee moves into Special Team Assignment.

As the business grows, the owner-manager might set up the job of Assistant Manager. The organization chart should look like this:

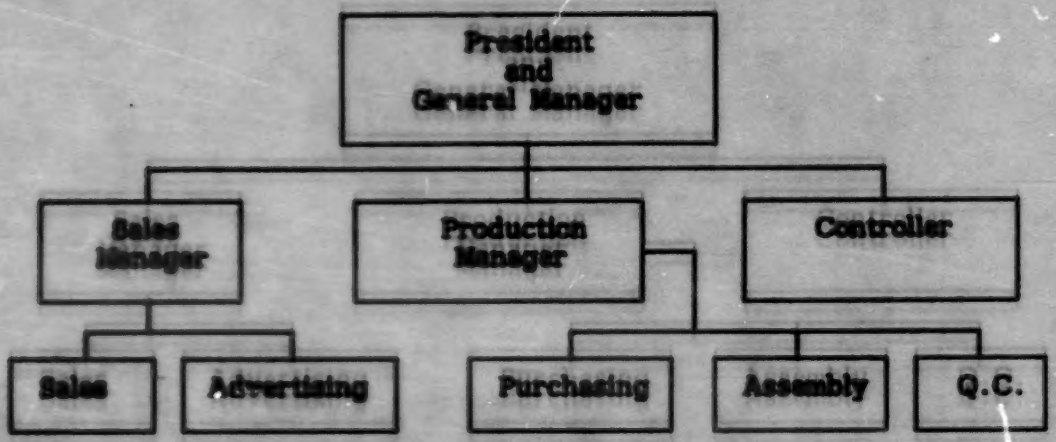


* Source: "Business Plan for Retailers" (Washington, D.C.: Small Business Administration), Small Business Administration Management Aid No. 150.

3. In the beginning, the president of the small manufacturing company probably does everything.*



As the company grows to perhaps 50 - 100 employees, the organization may begin to look something like the chart below.



* Source: "Business Plan for Small Manufacturers" (Washington, D.C.: Small Business Administration), Small Business Administration Aid No. 216.

lesson
21

Who are your customers?

Overview

Before you can effectively sell your product or service, you need to know your market. This lesson focuses on market research techniques and activities, motivation research, and the use of market research consultants.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe market research techniques and activities.
2. Explain motivation research.
3. Describe the use of market research consultants.

Getting Prepared

Read Chapter 17, pages 264-274, in Small Business Management, 5th edition. Be sure that you read the summaries and discussion questions provided in this chapter.

Summary of the Audio Lesson

Marketing research is the systematic gathering, analysis, classification, and interpretation of marketing information. As a small businessperson, you need to understand and know the possible market areas for your product or service or suffer the consequences of not knowing who your potential customers are and where they are located. Market research is really the search for objective information concerning some business problem.

Various market research techniques and activities are available for investigating market research problems. Some of these include: sampling surveys, sequential sampling, testing market acceptance, measuring market acceptance and market share, measuring the effectiveness of the sales effort and analyzing sales records.

Market research is quantitative motivation research is qualitative. Motivation research seeks information on consumer buying behavior. It tries to find out the reasons why people buy and the factors that influence them. Both in market research and in motivation research, a certain amount of know-how is necessary. Sometimes, it may be necessary to use an outside consultant to do effective research. Many times the cost of a consultant is very small compared to the benefits you may receive from effective market research.

Putting it all It All Together

SELF-QUIZ

Do the review questions found on pages 103-104 in the Student Supplement for Small Business Management 5th edition. After completing the review questions, check your answers with those given on page 179 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1.. Describe the two types of survey research techniques.

2. What are the ways in which you might evaluate the effectiveness of a sales effort?

3. What kinds of information would you want to research for a marketing effort?

4. List several sources for obtaining market research information.

SUGGESTED ACTIVITIES

Do project 17-4, page 106, in the Student Supplement for Small Business Management, 5th edition.

lesson
22

Getting the customer's attention

Overview

The importance of advertising cannot be overlooked when planning for your business. This lesson focuses on: (1) the purposes of advertising, (2) the preparation of an advertising budget, (3) the selection of an advertising medium for a product or service, (4) the methods of coordinating advertising with other sales promotion activities, and (5) the consumer protection laws dealing with advertising.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Define the purposes of advertising.
2. Prepare an advertising budget.
3. Select the advertising medium to be used.
4. Determine methods of coordinating advertising with other sales promotion activities.
5. Identify consumer protection laws dealing with advertising.

Getting Prepared

Read Chapter 16, pages 246-263, in Small Business Management, 5th edition. Be sure that you read the summaries and discussion questions provided in this chapter.

Summary of the Audio Lesson

Advertising acquaints the public with your products or services and the prices charged. There are four main steps to follow in creating an advertising plan. They are:

1. Research -- exploring the features of the product and its target consumers.

2. Strategic planning -- determining the desired results from advertising, money allocation, advertising media, and an overall creative strategy.

3. Tactical decisions -- identifying actual advertising to be used.

4. Advertisement construction -- writing copy and preparing artwork for ads.

Going through these steps will help you in the advertising effort.

In step two, "Strategic Planning," money allocation was mentioned. You should prepare an advertising budget to plan for and manage advertising costs. There are two methods which can be used in assessing money needs for advertising. The first is the "percentage of sales method" where a fixed total amount of money is allocated for advertising. The second method is the "objective and task" method where goals of advertising are determined and money is allocated based on those goals. Regardless of which method you use, it is important that your advertising be timely. Certain seasons, holidays, and dates are important for many businesses, and advertising should complement them.

An important consideration in advertising is selecting the appropriate advertising medium. The primary types of media are newspapers, magazines, radio, television, direct mail, and others such as billboards or the yellow pages. Many times you may find you need a combination of media to reach your target audience. The basic question you must be able to answer, however, is: "How can I most effectively reach my target audience or potential customers?"

Coordinating your advertising with other sales promotion is very important. Promotion involves communication with customers. You must first decide what the promotion is to accomplish. It may be to attract new customers or to generate interest in a new product. Your promotion may create a desired store image or sell special offerings. Demonstrations, displays, grand openings, coupons and special sales are all examples of promotion. The traditional types of advertising should correspond to your promotions so that you maximize your advertising impact to your customers.

Regardless of what type of advertising you choose for your business, it is important for you to know the consumer protection laws at the local, state, and federal levels. Depending on your type of business and your locale, these may vary. However, the consumer protection laws were created to protect the public from unfair advertising practices.

Putting it all It All Together

SELF-QUIZ

Do the review questions found on pages 99-100 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 178 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. What is the difference between institutional and promotional advertising? Give an example of each.

2. Who uses industrial advertising? Toward whom is it directed?

3. How can the amount of money to be spent on advertising be determined by the entrepreneur?

4. What would be the best method to insure effective advertising?

5. What considerations should be made in selecting an effective form of media for advertising?

6. What are the advantages and disadvantages of newspaper, television, and radio as advertising media?

7. When is publicity worthwhile?

8. Why might sales promotion be more difficult in a manufacturing business than in a retail business?

9. Of what value to the consumer and the business are the following regulatory bodies:

   (1) Federal Trade Commission?

(2) Food and Drug Administration?

(3) Federal Communications Commission?

(4) Better Business Bureau?

SUGGESTED ACTIVITIES

1. a. For your business, select a new line of products or service and decide to whom an advertisement should be aimed.

   b. Analyze the unique selling points of this product or service.

   c. Determine how you would advertise this new product or service based on these unique selling points.

2. If the usual expense for advertising in your chosen line of business were 3% of sales, would you be justified in spending 5% during your first year in business? In spending 10%, 20%? Give reasons why.

3. Complete two of the following projects:

a. Design two billboards and tell where you would have them placed. (Why at that particular place?) Draw these billboards on 8½" x 11" unruled white paper.

b. Make one 10 to 30 second TV commercial. Prepare a written script for the commercial.

c. Prepare two 10 to 30 second radio commercials. Prepare written scripts for each.

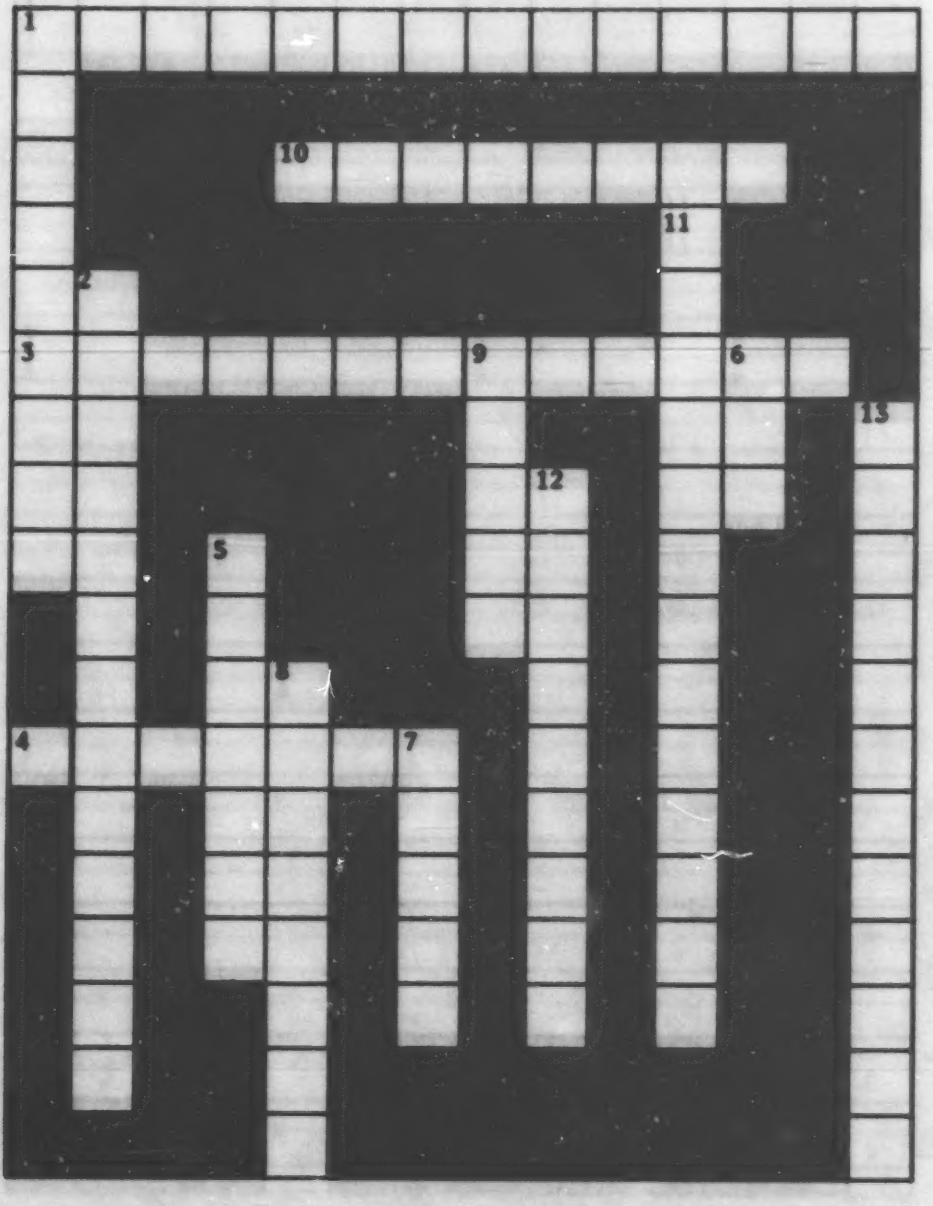
d. Select a packaged product and explain the packaging and design of the product's container. Make drawings if necessary.

e. Design any other form of possible promotion activities for this new product. Promotion activities may include: in-store display, newspaper coupons, direct mail advertising, etc.

f. Design a magazine advertisement. Draw it on a poster board. Your magazine advertisement may be rated as follows: headline - 5 pts., copy - 5 pts., product illustration - 5 pts., signature block - 5 pts. (where to buy, manufactured by).

Do a pencil sketch of this magazine advertisement first. Use only one or two colors for your headline and copy. Any number of colors may be used for the rest of the ad.

4. Complete the following crossword puzzle using the definitions on the next page.



135

DIRECTIONS:

Across

1. combination of methods used by a retailer to communicate with consumers.

3. accumulated and then traded for merchandise or for reductions on groceries.

4. certificate which entitles a person to buy particular offering at a reduced price.

10. free trial products.

Down

1. involves communication from a retailer to consumer.

2. a product or service is given free or at a greatly reduced price with the purchase of another designated offering.

5. an arrangement of merchandise and information for shoppers' viewing.

6. a special arrangment set up beside complete stock of the item.

7. selling of goods at a lower or reduced price for a period of time.

8. a competitive act for increasing sales.

9. special events for demonstrating merchandise.

11. to explain the use of a product or service.

12. free promotion.

13. some stores' very elaborate and expensive supportive promotions.

5. Find additional information on any one of the following:

(a) Federal Trade Commission

(b) Food and Drug Administration

(c) Better Business Bureau

6. In addition to the above, find at least one current news article concerning the interaction of government regulation and business in regards to advertising.

lesson
23

Pricing the product or service

Overview

When deciding on how to price your product, there are many things you should consider. This lesson looks at: (1) the identification of factors that influence pricing policies, (2) the methods of pricing goods, and (3) the pricing procedures used by retailers.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Identify the factors that influence the pricing policies of an entrepreneur.
2. List the methods used to determine the price of goods.
3. Describe the pricing procedures used by retailers.

Getting Prepared

Review Chapter 16, pages 246-263, in Small Business Management, 5th edition. Be sure that you reread the summaries and discussion questions provided in this chapter.

Summary of the Audio Lesson

The pricing of goods and services usually includes the cost of the goods or services, expenses and a profit margin. Your business adds value to a product or service because you are providing the customer with a convenience or service they would not be able to get on their own. Thus, pricing should incorporate a way in which to maximize profits. Factors that influence pricing include: the company policy, the nature of the product or service, the economic and business conditions, the market strategy, the competition, and the methods of distribution.

To determine the price of your goods, you may decide to use any one of the several methods. "Full cost pricing" is a method whereby you set prices to cover the cost of goods sold, all expenses, and a profit percentage that is already determined. In "gross margin pricing," which is used widely by wholesalers and retailers, a certain markup is added to the wholesale cost. Another method is called "going-rate price," because the product price is set according to the manufacturers suggested retail price. And finally, you may select "marginal-cost pricing" where the relationship of volume, cost and profit is considered along with the fixed and variable costs; then, the price is adjusted according to market demand or strategy.

In establishing retail prices, markups and markdowns are important key elements. The most common pricing policies used by retailers are geared towards the psychological attitudes of consumers. For example, retailers use odd pricing such as $2.99 rather than $3.00 to suggest to customers that the item costs less. Other methods used by retailers include pricing at market level or below market level and pricing of a private brand. "Markups" include the necessary amount to cover operating expenses plus a profit, and "markdowns" are any reduction in retail price which is permanent or temporary. Knowing how to balance markups and markdowns while maintaining a profit margin is basic to good pricing policies and strategies in retailing. It is important to stay in touch with your market and its needs in order to be on top of pricing in retailing.

Putting it all It All Together

SELF-QUIZ

Name.

ADDITIONAL REVIEW QUESTIONS

1. How can an entrepreneur, in addition to price changes, influence an expansion of the market for the goods or services he/she offers?

2. Give an example of a product or service and explain how the nature of this product influences its selling price.

3. Determine the current economic condition and explain how prices are being influenced at the wholesale and retail levels.

4. Why is it necessary for a retailer to maintain pricing policies?

5. How should high fashion goods be priced?

6. What psychological effect can prices have on customers?

7. How can discount stores price below the going market?

8. Using the marginal cost method, how would a retailer justify selling a product at cost price?

9. When should markdowns be taken?

SUGGESTED ACTIVITIES

1. List ten (10) products or services for which the demand is inelastic. Explain why for each item listed.

2. Determine the pricing policy you will implement in your business. Justify this method and give examples.

3. For your choice of entrepreneurship, how will you determine the most profitable prices?

4. List and describe seven pricing methods.

   (a)

   (b)

   (c)

(d)

(e)

(f)

(g)

5. Markdowns should be taken on:

(a)

(b)

6. Compute the retail price for the merchandise items listed below. Use the markup percent given.

(a) COST = $ 4.95; Markup % = 66% on Cost RETAIL = _____

(b) COST = $ 19.75; Markup % = 75% on Cost RETAIL = _____

(c) COST = $ 39.50; Markup % = 38% on Retail RETAIL = _____

(d) COST = $150.00; Markup % = 44% on Retail RETAIL = _____

7. INSTRUCTIONS: In the "Given" column below, fill in any blanks. Then calculate the percent of markup on both RETAIL and COST, and write those answers in the correct areas. Round all percents to the NEAREST WHOLE PERCENT.

	GIVEN			PERCENT OF MARKUP	
	RETAIL =	COST +	MARKUP	ON COST	ON RETAIL
(a)	$1.00	$ .80	$_____	_____	_____
(b)	3.75	_____	.95	_____	_____
(c)	4.50	2.75	_____	_____	_____
(d)	_____	4.60	1.30	_____	_____

lesson
24

Cash or credit?

Overview

In the previous chapter, the pricing procedures used by retailers were discussed. This lesson will focus on the pricing procedures used by manufacturers, the categories of retail credit, services provided by a credit bureau, the decision factors involved in retail credit, and the meaning of trade credit.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe a pricing procedure used by manufacturers.
2. Describe the categories of retail credit, the services provided by a credit bureau, and the factors that influence the retailer's decision to offer credit.
3. Define trade credit.

Getting Prepared

Read Chapter 18, pages 275-302, in Small Business Management, 5th edition. Be sure that you read the summaries, discussion questions and case studies provided in this chapter.

Summary of the Audio Lesson

In manufacturing, it is necessary to determine what the best selling price is for your product. The best selling price should be high enough to cover cost and to make a profit; but it should also be low enough to attract customers and to build sales volume. The four elements of your price are:

(1) direct costs -- costs of material and direct labor

(2) manufacturing overhead -- building repairs and depreciation of machinery

(3) nonmanufacturing overhead -- selling and administrative costs

(4) profit

The direct costing approach allows you to set the best price for your product based on the above four known costs. Sometimes, however, this approach runs into complications because of shortages of manpower and equipment, or the unavailability of raw materials. So you must adjust your direct costing according to your variables at the time.

Once you decide on a pricing policy, a big decision is whether to extend credit or not. Consumer credit is a type of credit granted to retail customers for personal or family use. Consumer credit is divided into two categories: purchase credit and loan credit. Purchase credit is used when a retailer allows a customer to have a charge account which delays cash payment according to the terms of the account. Loan credit is not extended by retailers, but is usually a way for the customer to pay all retail creditors through a financial institution with one total debt rather than many.

The credit bureau collects pertinent credit data on consumers in a certain trading area. Businesses who need this service belong to the credit bureau and, in turn, give their credit information about customers to the bureau. In many areas of retailing, extending credit is a "must," so the information provided by the credit bureau may be invaluable in helping the retailer decide whether or not to extend credit. The decision to extend credit is also determined by the retailer's preferences, what the competition is doing and the profit margin.

Another type of credit is trade credit. Trade credit is extended by one business to another to help the sale of production or commercial goods. Usually the account is paid within thirty (30) days of the invoice date. However, discounts called "trade credit terms" are offered as an incentive to repay earlier.

Remember, regardless of what type of credit you decide to offer in your business, you will need more capital on hand to make up for the delay (or possible loss) of payment on credit.

Putting It All Together

SELF-QUIZ

Do the review questions on pages 107-108 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 179 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. How do marketing costs affect the pricing policies of manufacturers?

2. What is nonmanufacturing overhead? Give examples.

3. What are advantages and disadvantages of offering credit to customers?

CREDIT TO CUSTOMERS

ADVANTAGES	DISADVANTAGES

4. What services do credit bureaus provide for businesses?

5. Describe the Truth In Lending law. Who benefits from this law?

6. Which do you think is easier to obtain, trade credit or retail credit? Why?

7. Why do you think discounts are used to encourage a business to pay a bill within thirty (30) days?

8. Do you think most businesses adhere to a strict trade credit policy? Why might this policy be flexible?

SUGGESTED ACTIVITIES

1. List six factors that can complicate the setting of a price for a manufacturer.

   (a)

   (b)

   (c)

   (d)

   (e)

(f)

2. List and define the four elements that make up a manufacturer's pricing structure.

3. Go to a local retail store and obtain a credit application. Actually apply for credit at that particular store to discover either how difficult or how easy it is to obtain consumer credit. Notice the questions that you are being asked. Why are such questions asked? Did you feel the application was too personal? Why do you think your application was approved (or disapproved)?

4. List and define various trade credit terms offered by businesses.

5. Define:

   (a) Extra Dating

   (b) Seasonal Dating

lesson
25

The heartbeat of the business

Overview

Managing your business effectively means having good financial records. This lesson focuses on the importance of a good accounting system for your business, the basic accounting components, and the development of a cash budget.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Determine the importance of a good accounting system.
2. Understand the basic accounting components for starting a business.
3. Develop a cash budget.

Getting Prepared

Read Chapter 20, pages 318-334, in Small Business Management, 5th edition. Be sure that you read the summaries and discussion questions provided in this chapter.

Summary of the Audio Lesson

The importance of keeping good accounting records cannot be overstated. An effective accounting system is essential to the efficient management of business affairs. An accounting system provides valuable information for decision-making relative to: (1) the financial position of the business, (2) the profitability of the business, (3) the preparation of tax returns, and (4) effective planning and control. In the accounting system, all business transactions are identified and

recorded. An effective accounting system will provide information about external accounting requirements such as customers and employees, as well as information about internal accounting requirements for decision-making.

The types of accounting records needed when starting a business include: cash receipts, cash disbursements, sales, purchases, payroll, equipment, inventory, accounts receivable and accounts payable. Usually, it is advisable for a professional to prepare these statements since they should be done according to accepted accounting theory and practice.

A management tool that is very effective in determining financial needs is a cash budget. A cash budget allows you to see the dollar amount of your incurred expenses matched with a projected cash budget. To establish a cash budget, estimate your fixed and flexible expenses for each month of the year and then determine your start-up expenses. Based on this figure and your projected sales, you should be able to estimate your cash requirements for each month. A cash budget will help you determine those times of the year when you will need more cash. In addition to good accounting records, a cash budget is an asset to the entrepreneur because it is really a plan expressed in financial terms about the functioning of the business.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 119-120 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 178 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. As a business owner, what accounting information would you need to make decisions affecting your business?

2. Of the basic types of accounting records needed in a business, which records should be maintained daily, weekly, monthly, etc? Why?

3. Give an example of a transaction that should be recorded in a general journal. Why is it important to record this information in the general journal? Why should you not record it directly in the general ledger?

4. Why is it important to be aware of the tax considerations of a business? Should you just let your accountant worry about it? What happens if you keep your own records?

5. Why is it so important that a small business develop and maintain a cash budget?

SUGGESTED ACTIVITIES

1. Talk to five small business owners and ask them why their accounting records are so important.

2. Visit a small business and find out what special accounting information is used by its customers, creditors, banks, employees and government.

3. Choose your favorite small business and determine what accounting information would be needed to make a decision on renting or purchasing equipment.

4. For each of the basic accounting records, prepare an actual record and list the type of information that would be included in each.

5. Although you would need to take an accounting principles course to learn the basic rules for double-entry accounting, list the types of resources you can consult to help you understand this information.

6. Develop a list of the advantages and the disadvantages of having a cash budget.

7. Visit local small businesses and ask the owners what types of expenses they incur. Ask the owners where they generate cash requirements in addition to sales.

lesson
26

Analyzing statements

Overview

Once you have an accurate and thorough accounting system, you can use that information to prepare financial statements. This lesson looks at the importance of an income statement, the importance of a balance sheet, and the analysis of financial statements.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Understand the importance of an income statement.
2. Understand the importance of a balance sheet.
3. Understand the analysis of financial statements.

Getting Prepared

Review Chapter 20, pages 318-334, in Small Business Management, 5th edition. Be sure that you reread the summaries and discussion questions provided in this chapter.

Summary of the Audio Lesson

One important type of financial statement is the income statement. An income statement reflects the operation of a business by showing the income or loss of income for a period of time, usually one year. An income statement usually includes the net sales of the business, the cost of goods sold, the gross profit, the operating expenses, and the net income. The income statement is a useful tool because it can reveal items that need attention; and if compared to previous statements, it can indicate trends.

Another type of financial statement is the balance sheet. A balance sheet reflects the financial position of a business for a particular date. It shows the assets (owned by the business), the liabilities (owed by the business), and the owner's equity (the owner's claim against the assets or the owner's net worth). A balance sheet is a useful tool because it enables the entrepreneur at any given time to get a snapshot view of the business's financial condition.

Financial statements are based on accurate accounting records such as the income statement and the balance sheet so it is very important for those records to be correct. If you keep accurate records, your financial statement can function as a true indicator of the financial health of your business.

Putting It All Together

SELF-QUIZ

None.

ADDITIONAL REVIEW QUESTIONS

1. What basic information is included on an income statement?

2. How can you benefit by comparing your income statement figures with prior years or with the income statements of other firms in your type of business? What specific areas would you look at first? Can this information help you make any decisions in the future?

3. A balance sheet contains three major categories. Name them and explain what they are. Give examples of each.

4. What does it mean when a balance sheet is referred to as a "snapshot of the business"? What value does this statement have for the business?

5. Besides the owner of the business, who may be interested in the balance sheet? What influence does the income statement have on a balance sheet? Which should be prepared first?

SUGGESTED ACTIVITIES

1. Go to at least three small businesses in your neighborhood and ask the owner-manager(s) how important an income statement is to them.

2. Assume that you bought a used bicycle for $40 and you decided to fix it up to sell. You spent a total of $10 for repair expenses and $2 for an ad in a local newspaper. You sold the bicycle for $75. How much money did you make? From the preceding information, show similarities between this information and an actual income statement of a small business.

3. From the following information, prepare an income statement for the period ending December 31st: Sales, $100,000; Beginning Inventory, $25,000; Purchases, $65,000; Ending Inventory, $35,000; Depreciation -- Office Equipment, $1,000; Salary Expense, $10,000; Advertising Expense, $2,000; Rent Expense, $1,500; Miscellaneous Expenses, $3,000.

4. Go to a library and find three balance sheets from three different types of businesses. List the similarities and the differences.

5. Assume that you want to find out your personal net worth. List all the items you own (e.g., car, bicycle, radio, clothes, etc.) and list all the items on which you owe money (e.g., amount owed on car or bicycle, money you borrowed from a friend, etc.) From this information can you determine your net worth? Show similarities between this information and a balance sheet from a small business.

6. From the following information, prepare a balance sheet as of December 31st: Cash, $5,000; Accounts Receivable, $2,000; Merchandise Inventory, $5,000; Equipment, $15,000; Accounts Payable, $3,000; Notes Payable, $2,000; Mortgage Payable, $10,000; Owner's Equity, $12,000.

lesson
27

Protecting your venture

Overview

Owning and operating a business involves risk taking and possible loss. This lesson focuses on the measures you can take to minimize that risk, including: (1) the major types of insurance for a small business, (2) the outcomes of having an effective insurance plan, (3) how to evaluate an insurance company for your business, (4) how to evaluate an insurance agent for your business, and (5) the importance of an effective security system.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Identify the major types of insurance for a small business.
2. Determine the outcomes of having an effective insurance plan.
3. Determine what to look for in evaluating an insurance company.
4. Determine what to look for in evaluating an insurance agent.
5. Understand the importance of an effective security system.

Getting Prepared

Read Chapter 22, pages 352-362, in Small Business Management, 5th edition. Be sure that you read the summaries and discussion questions provided in this chapter.

Summary of the Audio Lesson

No matter what type of small business you are in, you should have insurance protection. The major types of insurance for a small business are: fire insurance, liability insurance, workmen's compensation, fidelity bonds, business interruption insurance, crime insurance, business life insurance, and automobile insurance. Before you become insured in any of these areas, you should first determine the extent to which your business needs protection by identifying your business risks. An effective insurance program should provide protection against losses, provide such things as ease of obtaining credit, and free money for investments by building present and future security of the business.

When evaluating an insurance company for your business, the first thing you should do is review the financial stability of the company. The company's field of specialization and its flexibility to adapt policies to your business needs are also important considerations. Other areas you should investigate are the company's coverage costs and its claim services. If you do incur a loss, you will want an insurance company that can respond swiftly to your needs.

Choosing an insurance agent is also an important factor when buying insurance. A good insurance agent should have thorough knowledge of all facets of insurance. One way to identify an agent's degree of knowledge is to determine if the agent is designated as a Chartered Life Underwriter (CLU) or Chartered Property and Casualty Underwriter (CPCU). In addition, an agent should have good contacts among many insurers and should provide extra quality services to your business.

In addition to purchasing insurance, there are many things you can do to protect your business from loss. Since employee thefts account for about two-thirds of the total theft in retail businesses, you can minimize (but not eliminate) the risk by carefully screening applicants, setting an atmosphere of honesty, and removing temptations to steal. You can protect your business by being aware of theft hazards and using prevention remedies for pricing procedures, refunding procedures, and cash handling. Shoplifting is a big problem for retailers and preventive measures such as keeping tight checks and controls on washrooms and fitting rooms can help minimize the risk. An effective security system should always include protection from burglary. An alarm system, suitable locks, secure safes, and adequate indoor and outdoor lighting are all preventive methods.

Many entrepreneurs do not realize the importance of protecting their business until after it is too late. Be sure you plan for the protection of your business so that you do not risk your hard work and effort.

SELF-QUIZ

Do the review questions found on pages 131-132 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 179 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. What are the purposes of the following types of insurance policies?

   a. Fire

   b. Liability

   c. Workman's Compensation

   d. Fidelity Bonds

   e. Business Interruption Insurance

   f. Crime Insurance

   g. Business Life Insurance

   h. Automobile

2. What are the advantages and disadvantages of having the preceding types of insurance?

FIRE

ADVANTAGES	DISADVANTAGES

LIABILITY

ADVANTAGES	DISADVANTAGES

WORKMAN'S COMPENSATION

ADVANTAGES	DISADVANTAGES

FIDELITY BONDS

ADVANTAGES	DISADVANTAGES

BUSINESS INTERRUPTION INSURANCE

ADVANTAGES	DISADVANTAGES

CRIME INSURANCE

ADVANTAGES	DISADVANTAGES

BUSINESS LIFE INSURANCE

ADVANTAGES	DISADVANTAGES

AUTOMOBILE

ADVANTAGES	DISADVANTAGES

3. Of the eight previous types of insurance, which one is the most important? Why? Which one is the least important? Why?

4. Is it necessary for a small business to insure that all possible losses will be covered? Why? What alternatives should be considered?

5. What should a small businessperson consider as the most important factor when purchasing insurance?

6. Why is it so important for a small business owner to research various insurance companies before purchasing insurance? How can the owner secure the necessary information to evaluate the insurance companies?

7. An important factor in the success of a small business is an effective insurance plan. What assistance can an insurance company provide in developing a plan? Should the small business owner see input from other companies regarding the insurance plan?

8. Why is it important to evaluate prospective insurance agents? What value does it serve? Who benefits from this evaluation? Why?

9. Shoplifting is a common problem among small businesses. Name and discuss five ways to reduce shoplifting.

(1)

(2)

(3)

(4)

(5)

10. Why is prevention so important in reducing losses from:

(1) Employee Theft?

(2) Shoplifting?

(3) Burglary?

(4) Robbery?

SUGGESTED ACTIVITIES

1. Choose one or two of the types of insurance you have listed and write to an insurance company for information on those types of insurance policies.

2. Visit a local small business and find out what types of insurance policies the owner has. Determine if the policies are different from your list. If there are some differences, try to list the reasons why the particular type of business may have a different policy.

3. Contact three local businesses and ask the owners what insurance company provides their coverage and why they chose the particular company.

4. List the possible benefits or values which an insurance company can provide a small business.

5. List as many services as possible which an insurance agent can provide a small business owner.

6. Visit three local small businesses and identify by observation the ways the small businesses are preventing loss through a security system.

lesson
28

Inventory and supplies

Overview

An important consideration in operating a business is the purchasing and management of supplies. This lesson focuses on: (1) types of supply sources, (2) company policies and procedures for buying supplies, (3) factors that influence buying decisions, (4) methods of inventory control, and (5) the development of a merchandising plan.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Identify the types of supply sources.
2. Develop company policies and procedures for buying supplies.
3. Determine the factors that influence buying decisions.
4. Describe the methods of inventory.
5. Determine a plan for maintaining complete stock assortments.

Getting Prepared

Read Chapter 23, pages 363-410, in Small Business Management, 5th edition. Be sure that you read the summaries, discussion questions and case studies provided in this chapter.

Summary of the Audio Lesson

There are three main sources of goods or supplies for the small businessperson. The first is the manufacturer from whom you can buy the goods directly. The second source of supplies is the "middleman." One kind of a "middleman" is an agent who negotiates purchases between the manufacturer and the small business owner but does not take title to the goods. Another type of "middleman" is the "merchant middleman" who acts as a wholesaler, buying from manufacturers and reselling to retailers. A middleman is advantageous if you need a variety of goods and would otherwise have to deal with numerous manufacturers. A third type of supply source is a buying office to whom your business would pay a fee for their buying services.

Before purchasing supplies for your business, it is advisable to establish a buying policy. Setting a buying policy eliminates inconsistencies in purchasing and maintains a good market reputation for the business. Usually buying policies deal with business image, qualities and values of products or services, complete assortments, merchandising by classification and price ranges, investments, purchase discounts, markdowns, and competition.

When buying supplies, you should be able to understand and negotiate various prices and terms offered by suppliers. If more than one source offers a product, the way to determine the best buy would be to compare offers from each supplier. Other factors to consider when buying supplies are: (1) the discounts you may receive, (2) the method of dating, and (3) the transportation arrangements for the supplies. "Discounts" mean a reduction in price and may be based on the time of repayment, the list price of the items, or the quantity of items bought. "Dating" is the amount of time the buyer is given to pay the bill and may be based on the invoice date or the date of receipt of goods. "Transportation considerations" include the method of shipment, the payment for shipment, and the ownership during shipment. In addition to these factors, the reputation of the supplier can be an important overall decision factor.

Once you purchase your stock, it is critical to maintain effective control over it. Inventory control involves: (1) what you have on hand, (2) what you have on order, (3) what you have sold, and (4) what you need to order. Inventory control records provide a way to list your supplies. Before you set up an inventory control system, you need to put these control records into a model stock list. A "model stock list" reflects the "model" quantity of any item to maintain in an "in stock" position for a period of time. With your model stock list in place, an inventory control system can be achieved by either counting stock or counting sales. If you prefer to count stock, you can use the "rotated method" in which control cards are used to record inventory.

If you count sales, the "perpetual method" may be used. In this method, stocks are calculated from the store's recorded sales. The "perpetual method" necessitates keeping track of sales as they occur on an item basis. Your choice of methods will depend on your type of business and on your inventory needs and requirements.

To maintain and control your stock, it is necessary to develop a merchandising plan. This plan does not have to be elaborate, but it is important in such areas as overbuying. Since merchandising involves purchasing in advance and must be based on some estimate, a well researched plan can be invaluable. Generally, a merchandising plan covers such areas as figures on stocks, sales, markups from the previous year, figures from the previous month, economic conditions, market conditions and changes in styles, delivery time, competition and seasonal needs.

Understanding the impact of purchasing and inventory control on the management on your business is a valuable asset to your business' functioning.

Putting It All Together

SELF-QUIZ

Do the review questions found on pages 137-138 in the Student Supplement for Small Business Management, 5th edition. After completing the review questions, check your answers with those given on page 179 of the Student Supplement.

ADDITIONAL REVIEW QUESTIONS

1. What advantages might the entrepreneur experience when buying directly from the manufacturer?

2. What services are provided by a buying office? Would it be advantageous for a small business to secure the services of a buying office?

3. What is the relationship between sound company policies and company goals?

4. How do policies and procedures protect the:

   (a) Buyer?

   (b) Entrepreneur?

5. Discuss the following statement: "Generally, it is more important to buy the right goods from the right resource than to save a few pennies."

6. What is the objective of inventory control?

7. Define:

   (a) Model Stock List

(b) Perpetual Stock Control

(c) Open to Buy

8. What is the difference between basic stock and model stock?

9. Why is merchandise planning necessary? What are its objectives?

10. How can one estimate the expected sales for a particular period?

11. Is it better to have a high turnover or low turnover of your product?

SUGGESTED ACTIVITIES

1. Contact a buying office that might possibly supply your type of business. Make a list of all services that office would supply you. Include the cost of such services. Determine if such a service would be feasible for your business.

2. Answer the following questions regarding discounts and dating:

   (a) Amount of invoice - $700.00. Date of invoice - October 16. Terms 3/10.

   By what date would the invoice need to be paid to earn the discount? _____. How much would be paid if the discount were taken? _____. When is the net amount of the invoice due? _____.

   (b) Amount of invoice - $680.40. Date of invoice - January 11. Terms - 2/5, n/45, X 30.

   If anticipation is taken at 6%, how much would be due on the invoice if paid on January 11? _____. If the invoice were paid on January 16, how much would the payment be? _____.

3. Compare the following offers:

   (a) Product: Tennis shoes Need: 12 dozen in full range of sizes and assorted colors.

   Supplier A-Cost per dozen - $21.60 Terms 8/10, n/60

   Supplier B-Cost per dozen - $22.80 Terms 8/10, n/60, 2% extra on all

   Supplier C-Cost per dozen - $22.10 Terms 8/10, n/60, 1% extra on full cost of any orders over 9 dozen.

   Which supplier has the lowest overall cost? _____.

   Which supplier would have the lowest cost on an order of 24 dozen? _____.

3. (b) Product: Screwdriver sets, 1/2 inch drive, 18 piece

Vendor A-Cost per set $17.00 Terms - 2/10, n/30, X 30

Vendor B-Cost per set $16.50 Terms - 2/10, n/60

Vendor C-Cost per set $16.90 Terms - 2/10, n/45, MOM
(invoice date would be June 18)

Which supplier has the lowest price? _____.

If you wish to delay payment as long as possible, which supplier should be used? _____.

If Vendor A offered a 2% promotional and Vendor C offered a 1% promotional, would this change the vendor with the lowest price?

If you were presently stocking tools from Vendor A, why would you consider buying from either Vendor B or C? _____
_____.

4. Answer the following questions regarding transportation terms:

(a) Pat's Camping Supplies ordered 50 tents from the Joe's Tent Company. The terms of the sales were as follows: Amount of invoice - $2,716.00. Date of invoice - February 20. Terms - 2/20, n/90. Freight - $136.30, F.O.B. - Origin Freight Allowed.

Who is to pay the freight costs on this order? _____.

When does Pat's Camping Supplies take title to the tents? _____.

What is the amount of payment of this invoice if paid March 15? _____.

What is the net amount of this invoice? _____. When is it due? _____.

(b) Pat's Men's Store placed an order with Smith's Coat Company for 150 golf jackets. The terms of the order were as follows: Amount of invoice - $1,350.00. Date of invoice - March 20. Terms - 6/10, n/30, Freight - $24.60. F.O.B. - Destination - Charges Reversed.

Who is to pay the freight costs of this order? _____.

When does Pat's Men's Store take title to the jackets? _____ _____.

What is the amount of payment of this invoice if paid March 26? _____.

What is the amount of payment on this invoice if paid April 20? _____.

5. Set up an inventory control system for the business you are about to open. Summarize the main points of your control system.

6. You are the merchandise manager in a small department store. One of your department managers comes to you with a request to re-order some merchandise that has been selling well. Following each of the steps below, write a brief explanation of how that item will affect your decision to place a re-order.

Interview a merchandise manager or buyer to help determine how each of the following will affect your decision to place a re-order.

1. Delivery Period:

2. Re-order Period:

3. Normal Sales Expectancy During the Above 2 Periods:

4. Safety Factor Desired:

5. Stock on Hand:

6. Merchandise on Order:

7. Vendor's Minimum Shipping Quantity:

8. Other Items to be Considered:

lesson
29

Time -- Our limited resource

Overview

Making the best use of time is very important for the small business-person. This lesson looks at the importance of managing time, time-saving methods, and time-saving actions.

Objectives

After reading the study guide assignment and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the study guide material and the Summary of the Audio Lesson included in this study guide chapter.

1. Describe the importance of managing time.

2. List some time-saving methods.

3. Identify some time-saving actions.

Getting Prepared

Read the Supplementary Material for this lesson, found in this study guide.

Summary of the Audio Lesson

Utilizing time effectively is a major consideration for you as a small businessperson because of the wide range of functions you must accomplish. The best way to organize time is to organize yourself. Identifying your activiites is the first step. Next you should develop a plan for scheduling your time based on your company's objectives and immediate priorities. Your planning should also include the determination of which things have to be accomplished on a daily, weekly, and monthly basis. Delegating can be an excellent way for you to cut down on activities that take up your time and can be done by others just as effectively.

Methods of time-saving include:

1. Job simplification -- a look at your company's operations and procedures to see if they can be arranged or combined differently to maximize time.

2. Expanding your attention -- an attempt to make all your various projects place an even demand on your time.

3. Selective reading.

Time-saving actions such as rationing the time you spend with visitors and customers, and listening actively can also provide an example to your employees.

Time is not a flexible commodity -- you cannot get back the time that is gone. Managing your time will allow you to get the most out of it.

Putting It All Together

SELF-QUIZ

None.

ADDITIONAL REVIEW QUESTIONS

1. What is the importance of managing time for the small business-person?

2. When do you think it is advisable to delegate?

3. How would you decide to whom you should delegate?

4. What is the purpose of job simplification?

5. What suggestions would you have for an entrepreneur who says he/she has no time for reading?

6. How can you avoid constant interruptions from visitors and employees?

SUGGESTED ACTIVITIES

1. Visit a small businessperson and ask them how they manage their time.

2. If the person you visited is a manufacturer, visit an entrepreneur in retailing or a service business and compare their time-saving methods and job demands.

SUPPLEMENTORY MATERIAL

Managing Your Time

Since the owner/operator of a small business has many jobs to perform, managing time effectively is a very important issue. Time is not a flexible commodity. There are twenty-four hours in the day and that is all. Being selective about what you put in those hours will help you make the best possible use of your time.

The best way to utilize your time is to organize it first. A pocket calendar, the kind that has a page a day, is a useful tool because it allows you to see the events, meetings and activities planned for a given day. Once you have an idea of your present schedule, the next step is to develop a plan to meet the goals you have set up for your company. Your plan should serve as a guide to what needs to be done on a daily, weekly and monthly basis to reach your goals. Your objectives will give you a clue as to where certain emphasis is needed and what things could be eliminated or delegated. This means that you must establish priorities. As a rule, you should try to eliminate anything that does not contribute to your objectives.

If there are low priority activities that must be done, or could more appropriately be done by others, you should delegate them. Learning how to delegate is an important management skill. You may choose to delegate certain activities, business errands, or certain responsibilities to a subordinate. Delegation depends on the subordinate's skills and abilities as well as on availability and your needs at the time.

Scheduling appointments, even with subordinates, can help you organize your time more effectively. It can cut down on the number of people who take up time you might have alloted for other things.

There are many time-saving methods. Basically, they all help you avoid wasting time. "Job simplification" is one method of saving time. The approaches used in job simplification include: (1) eliminating unnecessary or nonessential steps, (2) rearranging methods of operations, tools, supplies, job responsibilities, etc., (3) modifying items or procedures to save time and energy, (4) combining activities when possible, (5) substituting a new method, and (6) standardizing methods so that certain common activities can follow the same format.

Another time-saving method is referred to as "expanding your attention." As an entrepreneur, you have to be able to deal with more than one activity at a time. Thus, methods which help you keep track of various types of activities and their progress are important. Such tools as charts to map out progress or diagrams can be helpful. Understanding the work cycle of your projects, and knowing when each will need more close attention can be invaluable in establishing attention priorities. Although you may need to attend to many items, certain things will take precedence. However, the underlying element to expanding your attention is the attempt to make an even demand on your time, so that if one project does need more time, the others will not suffer.

Reading can also be a time saver. You should read selectively and eliminate or ignore unnecessary reading. You should set aside time to do any required reading for a customer or superior. You should read all materials with a purpose and skim material with that purpose in mind.

Time-saving actions include: (1) actually listening to suggestions, progress reports and employee comments; and (2) rationing your time with visitors, customers and sales people so that you do not get involved in time-wasting activities. If you follow these time-saving activities yourself, you will be encouraging your employees to do so as well.

Here are some time-saving tips to follow:

Schedule your work effectively.
Eliminate unnecessary work.
Perform work well the first time.
Use proper tools, machinery, and equipment.
Maintain equipment.
Provide sufficient materials and supplies.
Handle material properly.
Use space efficiently.
Assign work to capable employees.
Provide understandable orders.
Establish job descriptions.
Enforce discipline.
Train workers as necessary.
Be available to employees.
Set a good example.

By using these time-saving methods and techniques, you will be making time work for you, rather than letting it slip away.

lesson
30

Review

Overview

Owning and operating a successful small business means good management; and good management means being aware of the business's goals and objectives, the role of the small business manager and the functions of management. This review lesson summarizes these key concepts which were presented throughout the course in both the textbook and the audio lessons.

Objectives

After reading the textbook assignments and listening to the audio lesson, you should be able to do the things described in the following objectives. Check yourself to see if you have gained the skills described in the objectives. If you have difficulty with any objective, review the textbook material and the Summary of the Audio Lesson included in this study guide chapter.

1. Identify your business's major goals and objectives.
2. Relate these goals and objectives to your role as a small businessperson.
3. Identify the functions of management.
4. Complete the steps involved in developing a business plan.

Getting Prepared

Reread Chapters 11, 12, 13, 14 and 15, pages 168-244, in Small Business Management, 5th edition. In addition, reread student supplements 3, 19, 25 and 26 in the Student Supplement for Small Business Management, 5th edition. Review all of the study guide materials.

Summary of the Audio Lesson

During this course, many definitions, concepts and ideas have been presented and discussed. The final audio lesson reviews and summarizes many of these ideas with particular attention given to:

1. the definitions of "entrepreneur," "self-employment," and "small business."

2. the goals and objectives of small business.

3. the job of the small business manager.

4. the functions of managing a small business and activities that relate to these functions.

In the first lesson of this course the terms "entrepreneur," "self-employment" and "small business" were defined. The definitions are:

Entrepreneur -- a person who starts a business either from scratch with new products or services or who buys an existing business.

Self-Employment -- working for yourself with direct control over work performed and fees to be charged.

Small Business -- a business which is independently owned and managed and is not dominant in its field.

The key to the importance of these definitions is the fact that the small businessperson or entrepreneur is in total control of his/her business. This means that you, as a potential or current owner of a small business, must be prepared to set the goals and objectives for your business and to guide your business towards the accomplishment of your goals through the management functions.

Although every small business has a variety of objectives including service to the community and growth of the business, the primary objective for all small businesses is "PROFIT." After the deduction of all expenses from the income generated by sales, the small business should show a profit; and this profit should be relative to the time, energy and capital invested in the business. As a small businessperson, you can compete for your share of the profits available in our free enterprise system by offering your customers the best price, quality and service.

In light of the service, growth and profit objectives for all small businesses, the individual small business manager must set specific objectives for his/her business. The small business manager must also decide on the general strategies for conducting the business, identify problem areas, delegate responsibilities, set standards of performance and evaluate the results of the business.

The major management functions are: planning, organizing, directing and controlling.

Planning -- The planning function consists of the establishment of policies and procedures to guide the future activities of the business. One of the major activities associated with the planning function is the preparation of the business plan.

Organizing -- The organizing function involves defining employee responsibilities, delegating authority and coordinating activities so that the business moves toward the desired objectives. Preparation of job descriptions is an activity associated with the organizing function.

Directing -- The directing function requires the small businessperson to give orders, supervise work performed, motivate employees, communicate with employees and establish rules and regulations. Activities that relate to staffing, selecting employees and training employees may also be grouped under the directing function.

Controlling -- Effective control over an organization is exercised by evaluating, appraising and examining the business and by comparing the business with what it ought to be. One of the major activities associated with the controlling function is the maintenance of good financial records.

Putting It All Together

SELF-QUIZ

None.

ADDITIONAL REVIEW QUESTIONS

1. As a small business manager, what do you consider to be your major tasks in managing your business?

2. What are the overall goals and objectives for your business? How do they relate to the objectives of profit, service and growth?

3. How do you plan to perform the following management functions in your business:

   a. Planning?

   b. Organizing?

   c. Directing?

   d. Controlling?

SUGGESTED ACTIVITIES

1. If you have not done so already, prepare a business plan for your real or hypothetical business.

2. Review and revise the job descriptions and organizational chart you developed earlier in the course.